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RECEIVED
January 11, 2019
Commission on
State Mandates

January 11, 2019

VIA CSM DROPBOX

Heather Halsey
Executive Director
Commission on State Mandates
980 Ninth Street, Suite 300
Sacramento, CA 95814

Re: *Lead Sampling in Schools, Permit Amendment No. 2017PA-SCHOOLS, City of San Diego Public Water System No. 3710020, effective January 18, 2017*, 17-TC-03, Comments on Draft Proposed Decision

Dear Ms. Halsey:

Please accept these comments on behalf of Claimant City of San Diego (City) in response to the Draft Proposed Decision issued on December 21, 2018.

The Commission on State Mandates (Commission) has never been presented with a test claim like this before. This is the only test claim where a local agency has specifically been ordered to provide a new service to customers at no charge. The express purpose behind the Permit Amendment is to avoid spending state funds, and transfer the cost of the new State program to local water agencies.[1] And because of Constitutional restrictions in Proposition 218, local tax dollars will need to be used to fund these free services, from the same limited funds that pay for police, firefighters, filling potholes, and for keeping parks and libraries open.[2] The Draft Proposed Decision validates the State's approach, determining that municipal water agencies are categorically ineligible to seek reimbursement through this Commission, whether or not the cost of new State programs can be recovered through fees or charges. The reasoning is so broad, it opens the door for local taxpayer dollars to be diverted to whatever free services the State decides the public should receive, under the veil of water services.

The main problem with the Draft Proposed Decision, explained in more detail below, is that it only analyzes water service generally, not lead testing specifically, and certainly not free lead testing provided only to schools. This test claim would not have been necessary if the above referenced Permit Amendment did not prohibit the City from charging a fee for its services. The

[1] City of San Diego Comment Letter dated Nov. 9, 2018 (City's Rebuttal Comments) at p. 7.
[2] *Id*. at pp. 9-14.

requirement to conduct lead testing on school property for free amounts to a reimbursable state mandate because it is a public governmental service that must be funded through taxpayer dollars subject to the Gann limit. The expenditure of local taxpayer funds to implement free public programs or services established by the State is what the voters intended to prevent when they passed the Constitutional amendment prohibiting unfunded state mandates.

I. By relying on a distinction between governmental and proprietary functions arising from sovereign immunity and torts, the Draft Proposed Decision erroneously concludes that water service is not a governmental function because private companies provide the same service.

As set forth in the Draft Proposed Decision, there are two tests for programs that are subject to State reimbursement: (1) programs that carry out the governmental function of providing services to the public, or (2) laws which, to implement a state policy, impose unique requirements on local governments and do not apply generally to all residents and entities in the state.[3] The first test focuses on whether the program is governmental (a program-specific test), while the second test focuses on whether the program is uniquely imposed on government (a provider-specific test). These are two alternative, independent tests.[4] A state program is eligible for reimbursement if the program is governmental, or if the program is imposed uniquely on local government.

The Draft Proposed Decision kills two birds with one stone, by applying a provider-specific test twice. The Draft Proposed Decision determines the Permit Amendment does not impose unique requirements on local government because private companies received similar orders, and then concludes water service is not a peculiarly governmental function because private companies also provide water service. In other words, the fact that private companies provide water service defeats both tests. What this analysis fails to recognize is that private companies can perform governmental functions without turning the function into a proprietary one. For example, operating prisons is a governmental function even though both public entities and private companies perform the service.[5] Trash collection is also a governmental function even though public agencies and private firms both provide the service.[6] Governmental functions are not limited to functions performed *exclusively* by government.[7]

The reason why the Draft Proposed Decision is applying the same test twice is because it rests on a century-old distinction between governmental and proprietary functions that uses a provider-specific test to determine the nature of the function. The court opinions cited by the State Water Resources Control Board (SWRCB) determine water service is not a governmental function

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[3] *County of Los Angeles v. State of California*, (1987) 43 Cal. 3d 46, 56.
[4] *Carmel Valley Fire Protection District v. State of California*, (1987) 190 Cal. App. 3d 521, 537.
[5] *See Richardson v. McKnight*, (1997) 521 U.S. 399, 408-409; *Pennsylvania Dept. of Corrections v. Yeskey*, (1998) 524 U.S. 206, 209.
[6] *Davis v. City of Santa Ana*, (1952) 108 Cal. App. 2d 669, 676-677; *Glass v. City of Fresno*, (1936) 17 Cal. App. 2d 555, 558.
[7] *See* Test Claim 10-TC-12, Claimant's Response to DWR Comments on Proposed Draft Decision at p. 2 (Nov. 7, 2014). The City concurs with the legal analysis presented by Claimant in its comment letter.

solely because both local government and private companies provide water service.[8] Furthermore, the distinction was used primarily to resolve questions of sovereign immunity involving torts. The distinction was soundly criticized by the courts, and ultimately abolished by the California Legislature with the Torts Claim Act.[9] The Commission has never denied a test claim because the public service being provided by a local government is a proprietary function.

To properly apply the program-specific test as delineated in *County of Los Angeles,* the Commission must consider the nature of the program or service itself,[10] not whether the service is being provided by government or private companies. The United States Supreme Court has done just that, and determined that municipal water service is a governmental function by focusing on the nature of the program rather than the identity of the provider:

> We conclude that the acquisition and distribution of a supply of water for the needs of the modern city involve the exercise of essential governmental functions, and this conclusion is fortified by a consideration of the public uses to which the water is put. Without such a supply, public schools, public sewers so necessary to preserve health, fire departments, street sprinkling and cleaning, public buildings, parks, playgrounds, and public baths could not exist. And this is equivalent, in a very real sense, to saying that the city itself would then disappear. More than one-fourth of the water furnished by the city of New York, we are told by the record, is utilized for these public purposes. Certainly, the maintenance of public schools, a fire department, a system of sewers, parks, and public buildings, to say nothing of other public facilities and uses, calls for the exercise of governmental functions. And so far as these are concerned, the water supply is a necessary auxiliary, and, therefore, partakes of their nature. [citation omitted]. Moreover, the health and comfort of the city's population of 7,000,000 souls, and in some degree their very existence, are dependent upon and [sic] adequate supply of pure and wholesome water. It may be, as it is suggested, that private corporations would be able and willing to undertake to provide a supply of water for all purposes; but if the state and city of New York be of opinion, as they evidently are, that the service should not be intrusted [sic] to private hands, but should be rendered by the city itself as an appropriate means of discharging its duty to protect the health, safety, and lives of its inhabitants, we do not doubt that it may do so in the exercise of its essential governmental functions.[11]

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[8] *See eg. In re Orosi Public Utility Dist.*, (1925) 196 Cal. 43, 58 "We take it to be now a generally accepted proposition that, while a municipality, which undertakes to supply those of its inhabitants who will pay therefor with utilities and facilities of urban life, is performing a function not governmental, but more often committed to private corporations or persons with whom it may come into competition, it is, in fact, engaging in business upon municipal capital, and for municipal purposes."

[9] *Datil v. City of Los Angeles*, (1968) 263 Cal. App. 2d 655, 660.

[10] The Draft Proposed Decision seems to support this approach, where it states "More importantly, while the cases cited by the claimant discount the value of the distinction between *governmental* and *proprietary* or *corporate* functions, they do so on grounds other than the nature of the service provided." Draft Proposed Decision at p. 73 (emphasis original).

[11] *Brush v. Commissioner of Internal Revenue*, (1936) 300 U.S. 352, 370-371; overruled in part (on other grounds) by *Graves v. People of State of New York ex rel. O'Keefe*, (1939) 306 U.S. 466.

The United States Supreme Court concluded water service is a governmental function in the context of federal taxation, local governmental functions being immune from federal taxes while proprietary functions are not. The Court recognized that many states consider water service to be a proprietary function in the context of immunity and torts, but declined to extend the rule beyond torts, characterizing it as a rule created so that injustice would not result from technical governmental defenses.[12] This analysis provided by the United States Supreme Court is more consistent with the program-specific test in *County of Los Angeles* by examining the nature of the program or service, not just the identity of the providers of the service.

Adopting the United States Supreme Court's determination that water service is a governmental function is also consistent with the California Supreme Court's decision that the City of San Diego, specifically, is acting in a governmental capacity when exercising its pueblo water rights:

> It should at the outset be understood and stated that the pueblo rights, and hence the rights of its successor, the city of San Diego, to whatever of the waters of the San Diego river were from time to time required for the needs of the pueblo and of the city and of the inhabitants of each, were rights which were essentially 'governmental' in character, as much so in fact as were the rights of the ancient pueblo and modern city to the public squares or streets, and that the term 'proprietary,' as employed with reference to certain commercialized uses made by municipalities and other public bodies, of water, light, and power, for example, has no application to the fundamental rights of the plaintiff herein to its ownership of its foregoing classes of property dedicated and devoted to public uses.[13]

If adopted by the Commission, the Draft Proposed Decision would lead to the incongruous result of the City performing a governmental function in securing its local water supply, but then somehow transitioning to a proprietary function in distributing that water to its customers.

II. Even if water service is not a governmental function, lead testing provided at no charge to schools is a governmental function being performed by the City.

The Draft Proposed Decision analyzes the broad concept of water services, without examining the specific public service the Permit Amendment imposes. The Permit Amendment requires the City to perform free lead testing at the request of schools, and to complete the testing and reporting requirements within short deadlines based on the date of the initial request.[14] Just because the City's water utility is capable of providing the service does not mean the new service

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[12] *Id*. at 363. "It is true that in most of the state courts, including those in the state of New York, it is held that the operation of waterworks falls within the category of corporate activities; and the city's liability is affirmed in tort actions arising from negligence in such operation. But the rule in respect of such cases, as we pointed out in Trenton v. New Jersey, 262 U.S. 182, 192, 43 S.Ct. 534, 538, 67 L.Ed. 937, 29 A.L.R. 1471, has been 'applied to escape difficulties, in order that injustice may not result from the recognition of technical defenses based upon the governmental character of such corporations'; and the rule is hopelessly indefinite, probably for that very reason."

[13] *City of San Diego v. Cuyamaca Water Company*, (1930) 209 Cal. 105, 130. Had the City been acting in a proprietary capacity, presumably it would have lost its water rights to the Cuyamaca Water Company and other defendants, who had appropriated the water first.

[14] Permit Amendment at pp. 3-4, paragraphs 3(a)-(m).

is a proprietary water service.[15] As the City explained in its earlier comments, the California Supreme Court has determined that activity performed at the request of water customers is not associated with ongoing water service.[16] Therefore, lead testing performed on school property at their request is not associated with ongoing water service.

The Draft Proposed Decision implies that because the Lead and Copper Rule requires water providers to test for lead on private property, that all lead testing is integral to water service. The Lead and Copper Rule requires "targeted" testing, where at-risk areas for testing are identified by the City using factors such as the age of the plumbing and the source of the water in the particular area, to help assess whether the City's water could contribute to any exceedances for lead or copper. The Permit Amendment is different, requiring lead testing at the request of any K-12 school, regardless of the age of the school or the plumbing, the source of the water, or the City's assessment of the risk of lead at that location. The City must even test separate schools co-located on the same property receiving water from the same location in the City's water system.[17] The Permit Amendment is designed to locate sources of lead on school property, not to assess the City's water. To date, the City has tested for lead at 262 schools pursuant to the Permit Amendment.[18] Five fixtures at four school sites had lead levels above 15 parts per billion.[19] Three of those schools took remedial action which resolved the problems.[20] The remaining school is no longer at the property.[21] The City has not identified any problems with City water through the Permit Amendment.[22]

Lead testing on school property is more akin to the governmental function of building inspections on private property,[23] where the City inspects private facilities that it neither owns nor operates, to confirm compliance with pre-established standards. In this case, the standards and action thresholds are established by the Permit Amendment.[24] The purpose of performing free lead testing at schools is to protect the health of children and students, which is another governmental function.[25] Providing public services for free also seems inherently governmental, though there does not appear to be a case on point in California.[26]

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[15] To simply characterize everything the State orders the City's water utility to do as a proprietary water service would open the door to ordering municipal water agencies to replace pipes and fixtures on school property for free, or to provide free drinking water, the other costs implicated by SB 334. The City has the capability to perform these functions, but such tasks are not associated with ongoing water service.
[16] City's Rebuttal Comments at p. 11; *Richmond v. Shasta Community Services Dist.*, (2004) 32 Cal. 4th 409.
[17] Supplemental Declaration of Doug Campbell, paragraph 11.
[18] *Id*. at paragraph 8.
[19] *Id*.
[20] *Id*. at paragraphs 9, 10.
[21] *Id*. at paragraph 9.
[22] *Id*. at paragraph 10.
[23] *Denman v. City of Pasadena*, (1929) 101 Cal. App. 769, 779.
[24] Permit Amendment at pp. 3-4.
[25] *Kellar v. City of Los Angeles*, (1919) 179 Cal. 605, 608; *Davie v. Board of Regents, University of California*, (1957) 66 Cal. App. 693, 700.
[26] *See Horne v. Town of Blowing Rock*, (2012) 223 N.C. App. 26, 35. "Thus, prior cases in this State reveal that a municipality's operation and maintenance of free public parks for the recreation of its citizens is traditionally a governmental function for which governmental immunity will ordinarily apply; but a municipality may waive such

The Draft Proposed Decision indicates the schools are performing these governmental functions, not the City, by submitting requests to the City for free lead testing.[27] But that presumes the City and the schools cannot both be performing the same governmental functions, and ignores the fact that the Permit Amendment requires the City to honor the schools' requests and to provide all the services for free. Drawing a distinction based on a school's request for free lead testing implies that the regulations in *Carmel Valley* would not have been a reimbursable state mandate if the firefighting agencies had only been required to issue new equipment when requested by individual firefighters. The State should not be able to avoid reimbursable state mandates by merely empowering those needing the service to demand it, instead of directing local agencies to provide it.

III. There is no legislative or voter intent to categorically exclude municipal water agencies from seeking reimbursement for state mandates.

The Service Duplication Law, first raised by SWRCB and relied on by the Draft Proposed Decision, simply has no bearing on this test claim. SWRCB argues this law amounts to a legislative determination that water service is not a governmental function.[28] All the Service Duplication Law does is acknowledge that municipal water agencies and private water companies may end up in competition with one another, and establish a means for compensating one another for lost business to encourage investment in water facilities. Nothing in the Service Duplication Law discusses the distinction between governmental and proprietary functions.

If there was legislative intent to make proprietary functions or municipal water service categorically ineligible for reimbursement, it would be found in the statutes that created this very Commission. Government Code section 17556 lists the seven categories of test claims where the Commission cannot find costs mandated by the state. If the Legislature intended to categorically exclude proprietary services generally, or municipal water agencies specifically, it would have included it there. But the Legislature did not. Instead, the Legislature excluded new programs or higher levels of service where the local government has the authority to levy service charges or fees to recover its costs,[29] which would normally encompass nearly every activity of a municipal water agency. But at least implicit in this exclusion is a legislative intent of where the local government does not have the authority to levy fees or charges to cover the cost, the new program or higher level of service could be eligible to receive reimbursement for the state mandate. This is the situation presented by this test claim because the Permit Amendment mandates a new service at no charge.

A review of the ballot initiative that amended the Constitution to prohibit unfunded state mandates, does not disclose any voter intent to exclude state mandates imposed on municipal

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governmental immunity when revenue is derived either from the operation of the park itself or from the conduct of activities within the park, which can render the park's operation and maintenance a proprietary function."

[27] Draft Proposed Decision at p. 70.

[28] SWRCB Comments at p. 13.

[29] Cal. Gov't Code § 17556(d).

water agencies.[30] The measure was intended to prevent the state government from forcing new programs on local government without the state paying for them.[31] It is unreasonable to believe that voters were aware of the judicially-created distinction between governmental and proprietary functions in torts, and intended to apply the rule in the context of state mandates. The more reasonable interpretation is that the voters intended to include any new state mandated programs imposed on local government that spend local tax dollars, regardless of which branch, department, or service of local government the state chooses to impose upon.

IV. Testing for lead on school property at the City's expense is not analogous to all building owners upgrading their elevators at their own expense.

The Draft Proposed Decision characterizes this test claim as being most analogous to *County of Los Angeles II*, a case involving a requirement to upgrade elevators to meet earthquake safety regulations.[32] The City disagrees. The regulations in that case required all owners of buildings with elevators to upgrade them to meet new earthquake safety standards. Everyone had to upgrade their own elevators, at their own expense. SWRCB did not order everyone to test their own buildings for lead, which would be analogous to *County of Los Angeles II*. Instead, the Permit Amendment requires the City to go out and test other owners' buildings for lead, at City rather than the owners' expense. Upgrading elevators to meet safety standards does not offer any new or additional public service, because the elevators were already installed and in use. The cost of operating the elevators merely became more expensive. Testing for lead on school property is distinguishable as a new service that the City did not offer until mandated by the Permit Amendment. The cost of lead testing is not an incidental or overhead cost, but a direct cost incurred as the new service is requested by each school, and performed by the City.

The other opinions relied on by the Draft Proposed Decision similarly only increase the incidental cost of providing existing services, without offering any new services or programs. Benefits for public and private employees such as unemployment insurance,[33] workers' compensation benefits,[34] and workers' compensation death benefits[35] all increase the cost of having employees, but do not mandate the hiring of additional employees or provide new services to the public. The Permit Amendment requires the City to provide a new public service: free lead testing for schools.

The City's test claim is more analogous to the decision in *Carmel Valley*.[36] *Carmel Valley* involved an executive order to provide updated equipment to all firefighters. The Court noted that "firefighting is overwhelmingly engaged in by local agencies" and the executive orders in the case "do not generally apply to all residents and entities in the State but only to those

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[30] Proposition 4, Special Election ballot pamphlet (1979).
[31] *County of Los Angeles*, *supra*, 43 Cal. 3d at 56.
[32] Draft Proposed Decision at p. 63; *County of Los Angeles v. Dept. of Industrial Relations*, (1989) 214 Cal. App. 3d 1538.
[33] *City of Sacramento v. State of California*, (1990) 50 Cal. 3d 51.
[34] *County of Los Angeles v. State of California*, (1987) 43 Cal. 3d 46.
[35] *City of Richmond v. Commission on State Mandates*, (1998) 64 Cal. App. 4th 1190.
[36] *Carmel Valley Fire Protection District*, *supra*, 190 Cal. App. 3d 521.

involved in fire fighting."[37] Though the Draft Proposed Decision discounts its relevance, 81% of Californians who receive potable water service receive their service from local government agencies.[38] The Permit Amendments do not generally apply to all residents and entities in the State, but only to those providing water service to schools, in the same manner that the requirements in *Carmel Valley* only applied to firefighting agencies. The Commission should determine the Permit Amendment is a reimbursable state mandate following the reasoning in *Carmel Valley*.

V. The City's decision to provide water service does not preclude free lead testing provided at schools from being a reimbursable state mandate.

The Proposed Draft Decision raises new grounds for denying the City's test claim that was not presented by DOF or SWRCB. The Draft Proposed Decision indicates the obligation to provide free lead testing for schools is not mandated by SWRCB, but "instead, triggered by a local discretionary decision to provide water service and operate as a PWS."[39]

The three opinions cited by the Draft Proposed Decision are all distinguishable. First, they all involve relatively contemporaneous decisions to engage in certain activities or programs that can easily be revisited. *City of Merced* involved a new requirement to consider loss of business goodwill when calculating compensation to be paid by local agencies exercise eminent domain.[40] The Court reasoned the new requirement was not mandated by the state because local agencies could then and there decide whether to pursue eminent domain, acquire the property through purchase, or pursue other means.[41] *Department of Finance (Kern High School District)* involved certain notice and agenda requirements for school site councils and advisory bodies that were already being funded by the state.[42] The Court explained the notice and agenda requirements were simply conditions of participating in a state-funded program, and the school is free to stop participating in the program if it does not want to incur the associated costs.[43] In *Department of Finance (POBRA)*, reimbursement of certain administrative and procedural costs associated with investigation and discipline of peace officers was denied because school districts are not required to employ them.[44] Based on the fact that most schools did not have peace officers,[45] the Court determined that hiring peace officers was voluntary and not necessary for the schools to educate and protect students.[46] The Commission appears to recognize that there must be a relationship between when the discretionary decision was made (or can be revisited) and when new state requirements are imposed, because it found reimbursable state mandates with discretionary local

[37] *Id*. at 538.
[38] City's Rebuttal Comments at p. 5.
[39] Proposed Draft Decision at p. 49.
[40] *City of Merced v. State of California*, (1984) 153 Cal. App. 3d 777.
[41] *Id*. at 783.
[42] *Department of Finance v. Commission on State Mandates*, (2003) 30 Cal. 4th 727.
[43] *Id*. at 745.
[44] *Department of Finance v. Commission on State Mandates*, (2009) 170 Cal. App. 4th 1355.
[45] *Id*. at 1359.
[46] *Id*. at 1368.

programs and services that are not mandated by law, such as operating municipal airports[47] and public parks.[48]

The City "decided" to become a municipal water agency on July 21, 1901, when San Diego voters approved the issuance of bonds to purchase the water distribution system from a private water company.[49] This predates even the 1911 Constitutional amendment cited in the Proposed Draft Decision that specifically authorizes municipalities to provide water service.[50] Therefore, the City started providing water service likely before there was even a requirement to obtain a permit from the State to operate a municipal water system. Over the last century, the City has heavily invested in the expansion and betterment of its water system to now serve 1.3 million residents.

Unlike the situations in the three opinions cited by the Draft Proposed Decision, the City cannot take back a decision made almost 120 years ago and stop providing water to its residents. Cities must provide for the health, safety, and welfare of their residents, and simply put, people cannot survive without water. Many of the impacts of turning off the water for 1.3 million people are self-evident:

> We conclude that the acquisition and distribution of a supply of water for the needs of the modern city involve the exercise of essential governmental functions, and this conclusion is fortified by a consideration of the public uses to which the water is put. Without such a supply, public schools, public sewers so necessary to preserve health, fire departments, street sprinkling and cleaning, public buildings, parks, playgrounds, and public baths could not exist. And this is equivalent, in a very real sense, to saying that the city itself would then disappear.[51]

The six largest water consumers in the City are federal (primarily military), state (university), and local agencies serving public purposes, with the City of San Diego being its own largest water customer.[52] These public agencies could no longer function without water. Water is necessary for drinking, cooking, cleaning, firefighting and sanitation. Toilets cannot flush without water, and the absence of water would quickly lead to a health crisis. The City must continue to provide water service to protect the health, safety, and welfare of its residents.

Second, to preclude a state mandate there must be a meaningful nexus or connection between the service or program voluntarily undertaken by a local agency, and the new requirement being imposed by the State. In the three opinions cited by the Proposed Draft Decision, the new requirements imposed by the State were integral to the voluntary programs or services being

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[47] Statement of Decision on Test Claim CSM-4507 (Oct. 22, 1987).
[48] Statement of Decision on Test Claim 01-TC-11 (Dec. 9, 2005).
[49] William E. Smythe, *History of San Diego, 1542-1908*, Part Four, Chapter 4: Water Development at p. 5 of 11 (1908). Also available at http://sandiegohistory.org/archives/books/smythe/part4-4/.
[50] Draft Proposed Decision at p. 49.
[51] *Brush*, *supra*, 300 U.S. at 370-371.
[52] Official Statement, City of San Diego Subordinated Water Revenue Bonds, Series 2018A, (Official Statement) at p. 31; *See* Supplemental Declaration of Ray Palmucci (describing the Official Statement).

provided by local government. In *City of Merced*, the local agency exercising eminent domain is legally responsible to pay for the property, and lost business goodwill is part of the calculation of that cost. In *POBRA*, only the school district can provide the procedural protections mandated by the State because the peace officers are school employees. And in *Kern High School District*, the State mandated notice and agendas are for meetings of the school councils and advisory bodies to the schools.

The City's test claim is distinguishable because there is no nexus between the City's decision to provide water service and free lead testing on school property, other than the one created by the State itself in issuing the order through an amendment to a permit. Certified laboratories can perform lead testing on school property without affecting or interfering with City water service. SWRCB is implementing an accreditation program to certify such laboratories in California.[53] Several State-approved laboratories for water quality analysis are located in San Diego County.[54] There are many obligations SWRCB imposes on municipal water agencies that are integral to water service, such as chemical additives, operational processes at treatment plants, water management plans, and public water quality reports, that only the provider of water service can perform. Free lead testing on school property simply is not one of them, and cannot be said to be inherent or tied to a decision to provide water service.

Finally, even though the City is not legally obligated to provide water service under State law, the City has no practical alternative but to comply with the Permit Amendment. In *Kern High School District*, the California Supreme Court recognizes that circumstances short of legal compulsion could amount to a state mandate:

> Although we do not foreclose the possibility that a reimbursable state mandate might be found in circumstances short of legal compulsion-for example, if the state were to impose a substantial penalty (independent of the program funds at issue) upon any local entity that declined to participate in a given program-claimants here faced no such practical compulsion.[55]

Failure to comply with a drinking water permit can result in suspension or revocation of the permit, which would prevent the City from operating its water system.[56] The Permit Amendment became effective on January 18, 2017, five days before the Permit Amendment was even received by the City on January 23, 2017.[57] The City had no opportunity to revisit its decision or opt out of providing water service before the effective date of the Permit Amendment.

The City would suffer severe consequences if it discontinued water service. Besides the obvious impacts to residents and public services described above, the City would face immediate repayment of bonds and other financing secured over the years to maintain its water system in good working order. As of November 15, 2018, the cumulative amount of that outstanding debt

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[53] Cal. Health & Safety Code § 100829.
[54] County of San Diego informational bulletin, *State Approved Laboratories for Water Quality Analysis* (2015)
[55] *Department of Finance*, *supra*, 30 Cal. 4th at 731.
[56] Cal. Health & Safety Code § 116625.
[57] Permit Amendment at p.1; Permit Amendment cover letter at p.2 (stamped "received" on Jan. 23, 2017).

was about $890 million.[58] Repayment of that debt is scheduled to run through 2050.[59] As a condition of receiving the financing, the City is required to operate and maintain its water system and dedicate net system revenues towards paying back the borrowed money plus interest.[60] Discontinuing water service would be considered an Event of Default, upon which owners of 25% or more of the outstanding principal amount can "declare the entire unpaid principal amount thereof and the accrued interest thereon to be due and payable immediately,"[61] amounting to nearly one billion dollars. Such severe consequences, both practical and financial, compel the City to comply with the Permit Amendment rather than discontinue water service to its residents.

For the reasons set forth herein, the City respectfully requests the Draft Proposed Decision be revised to reflect the City's comments and to grant the City's test claim.

Pursuant to Cal. Code Regs. tit. 2, § 1181.3(a), I certify and declare under penalty of perjury that the foregoing facts are true and correct to the best of my personal knowledge, information, or belief. I further declare that all exhibits are true and correct copies of such documents as they exist in the City's files, or as they were obtained from publicly available sources.

Sincerely,

MARA W. ELLIOTT, City Attorney

By
Thomas C. Zeleny
Sr. Chief Deputy City Attorney

cc: Service List via CSM Dropbox
Doc. No: 1905720

[58] Official Statement, at p. 5 (consisting of $78 million in senior obligations and $812 million in subordinate obligations). This does not include the pending receipt of $614 million in federal loans through the Water Infrastructure Finance and Innovation Act for the Pure Water San Diego Program, which will create a new local source of water by recycling wastewater into potable water.
[59] Official Statement, Debt Service Schedule at p. 24.
[60] *Id*. at pp. 13-14; 2009 Amended and Restated Master Installment Purchase Agreement (MIPA), §§ 5.01, 6.07.
[61] MIPA §§ 8.01(b), 8.01(d).

CITY COMMENTS ON DRAFT PROPOSED DECISION
EXHIBIT LIST

Cases[1]

[1] Pursuant to Cal. Code Regs. tit. 2, § 1183.3(b)(2), published court opinions arising from state mandate determinations are not attached as exhibits.

CALIFORNIA
Water Boards

EDMUND G. BROWN JR.
GOVERNOR

MATTHEW RODRIQUEZ
SECRETARY FOR
ENVIRONMENTAL PROTECTION

State Water Resources Control Board
Division of Drinking Water

CC: Peter Vroom
CC: Isam Hireish

January 18, 2017

Halla Razak
Public Utilities Director
City of San Diego, System No. 3710020
9192 Topaz Way
San Diego, CA 92123

Dear Halla Razak:

ISSUANCE OF PERMIT AMENDMENT 2017PA_SCHOOLS

REQUIREMENTS FOR LEAD SAMPLING AT K-12 SCHOOLS

The State Water Resource Control Board, Division of Drinking Water (Division) has issued a permit amendment to the City of San Diego water supply permit. The enclosed permit amendment establishes requirements for lead monitoring and lead sample result interpretation at Kindergarten to 12th grade (K-12) schools served by your water system that have submitted a written request for lead sampling related assistance. Full details of the new requirements for K-12 school lead sampling and lead sample result interpretation are included in the enclosed permit amendment.

If your water system does not serve potable water to at least one K-12 school, this permit amendment does not apply to your water system.

The Water System to whom a permit amendment is issued may file a petition with the State Water Resources Control Board (State Water Board) for reconsideration of the decision to issue the permit amendment. Petitions must be received by the State Water Board within 30 calendar days of the issuance of the permit amendment. The date of issuance is the earlier of the date when the permit amendment is mailed or served. If the 30th day falls on a Saturday, Sunday or state holiday, the petition is due the following business day. Petitions must be received by 5 p.m. Information regarding filing petitions may be found at:

http://www.waterboards.ca.gov/drinking_water/programs/petitions/index.shtml

Please visit the Division's school lead sampling webpage at:
http://www.waterboards.ca.gov/drinking_water/certlic/drinkingwater/leadsamplinginschools.shtml
for additional information including frequently asked questions and other important guidance.

If you have any questions, please contact the Lead Sampling for Schools Specialist at (916) 449-5577 or email your question to DDW-PLU@waterboards.ca.gov

Sincerely,

Sean Sterchi, P.E.
District Engineer

Enclosure: 2017PA_Schools

cc: Keith Kezer, Program Coordinator, Land and Water Quality Division, County of San Diego, Department of Environmental Health (via email)

bcc: ECM – Permitting and Technical Review – Permits, Amendments, Decisions – Permit Amendments

STATE OF *CALIFORNIA*

AMENDMENT TO THE

DOMESTIC WATER SUPPLY PERMIT ISSUED TO

City of San Diego
(Public Water System No. *3710020*)

By The

State Water Resources Control Board

Division of Drinking Water

PERMIT AMENDMENT NO. **2017PA-SCHOOLS** EFFECTIVE DATE: **January 18, 2017**

WHEREAS:

1. The State Water Resources Control Board (SWRCB) "may renew, reissue, revise, or amend any domestic water supply permit whenever the ... [SWRCB] deems it to be necessary for the protection of public health whether or not an application has been filed." (California Health and Safety Code (CHSC), Section 116525 (c))

2. "Every resident of California has the right to pure and safe drinking water." (CHSC, Section 116270 (a))

3. "It is the policy of the state to reduce to the lowest level feasible all concentrations of toxic chemicals that, when present in drinking water, may cause cancer, birth defects, and other chronic diseases." (CHSC, Section 116270 (d))

4. The Safe Drinking Water Act is "intended to ensure that the water delivered by public water systems of this state shall at all times be pure, wholesome, and potable." (CHSC, Section 116270 (e))

5. Protecting children from exposure to lead is important to lifelong good health. Children who are exposed to lead could experience long-term problems with physical and mental growth and development. Effects of lead exposure can be managed, but they cannot be remedied.

6. Recent events in the United States have shown that lead in drinking water remains an ongoing public health challenge and important concern for children's health. The SWRCB is encouraging schools that serve one or more of grades Kindergarten through 12th grade to test for lead in water from taps regularly used for drinking or cooking. The school can request assistance from their public water system.

7. Lead exposure in children typically results from a combination of environmental and man-made lead from sources such as paint, air, soil, industry, consumer products, food, and drinking water.

   Normally, the exposure from drinking water would be a very low component of this exposure. Children consume drinking water at home, at school and at various other locations. High levels of lead in drinking water are a concern at any of these locations. Lead in drinking water is typically found at the highest levels on "first draw" samples after the water has stagnated in the water pipes for several hours (such as overnight). If the lead levels are found to be below the action level after stagnation, that is a strong indication that there is an insignificant exposure to lead at that particular sampling location. Individual plumbing fixtures can contribute to high levels in these "first draw" samples.

8. In California, the SWRCB oversees public water systems to ensure the water they provide is tested and safe per the requirements of the State and Federal Safe Drinking Water Acts, and regulations adopted pursuant to those Acts, which includes the Lead and Copper Rule (LCR), a regulation adopted by the United States Environmental Protection Agency (USEPA) and the SWRCB to control lead and copper in drinking water.

   Under the LCR, public water systems are required to test water for lead at a set number of service connections (depending on the number of customers served by the system) that are at a higher risk for lead in the tap water due to their plumbing characteristics. Water suppliers are not required to test every customer's tap. Schools that are served by community water systems are generally not included in the LCR testing; only residential connections are included.

THEREFORE: The State Water Resources Control Board hereby determines that it is necessary for the protection of public health for this amendment to be issued, and hereby issues this permit amendment subject to the following provisions:

1. This permit amendment applies to each public water system that serves drinking water to at least one or more of grades Kindergarten through 12th grade school for which a request for lead sampling has been made prior to **November 1, 2019**, as provided for in Provision 3.

2. Each water system shall submit to the SWRCB's Division of Drinking Water (DDW) a comprehensive list of the names and addresses of all Kindergarten through 12th grade schools that are served water through a utility meter by **July 1, 2017**. The list shall be in the format and method posted on the DDW Lead Sampling in California Schools website.

3. If an authorized school representative, (the superintendent or designee of a school, governing board or designee of a charter school, or administrator or designee of a

private school) of a school served by the water system requests one-time assistance with lead sampling in writing, the water system shall:

a. Respond in writing within 60 days of receiving the school's lead sampling request and schedule a meeting with school officials, including at least one staff member familiar with the school's water infrastructure, to develop a sampling plan. An example school lead sampling plan is located on the DDW Lead Sampling in California Schools website. The sampling plan may use the USEPAs "*3Ts for Reducing Lead in Drinking Water in Schools*" as general guidance. The 3T document can be found online at:

https://www.epa.gov/sites/production/files/2015-09/documents/toolkit_leadschools_guide_3ts_leadschools.pdf

b. Finalize a sampling plan and complete the initial sampling within 90 days of receiving the lead sampling request, except that if the water system cannot complete the sampling plan and the lead sampling in that time period, the water system shall develop and comply with a time schedule to complete the sampling plan and initial lead sampling that has been approved by DDW.

c. Collect from one to five samples at each school from regularly used drinking fountains, cafeteria/food preparation areas, or reusable bottle water filling stations selected according to the lead sampling plan described in Provision 3 (b) using the sampling guidance located in **Appendix A (Sampling Guidance)** which is attached. Sample sites may be either treated or untreated.

d. Collect lead samples during the school year, on a Tuesday, Wednesday, Thursday or Friday during a day school is in session and has been in session for at least one school day prior to the date of sampling.

e. Ensure that samples are collected by a water system representative that is adequately trained to collect lead and copper samples.

f. Submit the samples to an ELAP certified laboratory for analysis of lead.

g. Require the laboratory to submit the data electronically to DDW in accordance with the electronic submittal guidance which is located on the DDW Lead Sampling in California Schools website.

h. Provide a copy of the results to the requesting authorized school representative.

i. Within two school business days of receipt of a laboratory result that shows an exceedance of 15 parts per billion (ppb) at a sample site, notify the school of the sample result.

j. If an initial lead sample result shows an exceedance of 15 parts per billion (ppb) at a sample site,

   i. Collect an additional sample (resample) within 10 business days of receipt of the laboratory result above 15 ppb if the sample site remains in service.

   ii. Collect a third sample within 10 business days after notification that a resample result described above is less than or equal to 15 ppb.

iii. If the sample site is removed from service by the school, do not collect the repeat samples unless the school has completed corrective actions.

iv. Collect at least one more lead sample at a sample site where the school has completed some corrective action following an initial lead sample result over 15 ppb (examples of corrective action are replacing interior piping, replacing faucet, installing filters, etc.)

k. Ensure that it receives the results of the repeat lead samples required in Provision 3 (j) from the laboratory no more than 10 business days after the date of sample collection.

l. Not release the lead sampling data to the public for 60 days following the receipt of the initial lead sampling results unless the water system releases the data in compliance with a Public Records Act (PRA) request for the specific results.

m. Discuss the lead sample results with the school prior to releasing the sample results to the public. The water system shall discuss all lead sampling results with the school within 10 business days of receiving the results from the laboratory.

4. The water system may stop lead sampling at a school if:

a. All initial samples are less than or equal to 15 ppb; or

b. Repeat sampling has been analyzed for each sample location with an initial lead sample greater than 15 ppb in accordance with Provision 3, and either:

i. If lead is confirmed over 15 ppb and the sample location has subsequently been physically removed from service, or

ii. If the sample location remains in service, and

a. If lead is confirmed over 15 ppb and the school has taken some corrective actions at the sample location and the water system has collected at least one additional lead sample after the corrective actions and the result is less than or equal to 15 ppb, or

b. If lead is less than or equal to 15 ppb in both the first repeat sample and second repeat sample described in Provision 3(j).

c. A written request from the water system to terminate lead sampling assistance has been approved by DDW.

d. If requested in writing by the school's authorized school representative.

5. The water system is responsible for the following costs:

a. Laboratory fees for all lead samples and reporting of the results to DDW and the school, and all laboratory coordination and instruction.

b. All water system staff time dedicated to the tasks required by the provisions in this permit amendment.

6. The water system may not use any lead samples collected as part of these special school samples to satisfy federal or state Lead and Copper Rule requirements.

7. The water system shall communicate with the school after lead sampling and assist the school with the interpretation of laboratory results and provide information regarding potential corrective actions if a school has confirmed lead levels above 15 ppb. The water system is not responsible to pay for any maintenance or corrections needed at the school if elevated lead levels are found in the drinking water. The water system is not responsible for determining any corrective actions needed at the school.

8. The water system shall keep records of all written requests from a school for lead related assistance and provide the records to DDW, upon request. Records shall include, at a minimum, the following information:

   a. The name of the school. If a school district makes a request, the school district's name shall be recorded along with each individual school served by the water system that is requesting sampling;

   b. The date of the request;

   c. The date of the initial meeting;

   d. The date of the sampling plan along with a copy of each sampling plan; and

   e. The date of initial lead sampling and all repeat samples.

9. The water system's annual Consumer Confidence Report shall include a statement summarizing the number of schools requesting lead sampling.

This permit amendment shall be appended to and shall be considered to be an integral part of the existing Domestic Water Supply Permit previously issued to the water system.

This permit amendment shall be effective as of the date shown below.

FOR THE CALIFORNIA STATE WATER RESOURCES CONTROL BOARD

Dated: January 18, 2017

Sean Sterchi, P.E.
District Engineer
San Diego District
SWRCB-DDW

APPENDIX A
SAMPLING GUIDANCE
Collecting Drinking Water Samples
for Lead Testing At K-12 Schools

This Sampling Guidance is provided by the State Water Resources Control Board (SWRCB) Division of Drinking Water for use by schools and water system staff who will be participating in the collection of samples for the determination of lead in drinking water at K-12 schools. Sampling and testing will be used to help reduce students and staff exposure to lead in the drinking water provided at the school.

This guidance and the instructions for sampling are taken from the US Environmental Protection Agency's 3Ts (Testing, Training, and Telling) for Reducing Lead in Drinking Water in Schools program for measuring and reducing lead at school drinking water locations; however, there are differences between the EPA and SWRCB sampling procedures. The SWRCB procedures used for this testing includes initial sampling to determine the combined lead concentration from the outlet device (bubbler, sink faucet, fountain, etc.) and from the internal plumbing, and repeat sampling to confirm initial sampling test results or to determine the lead concertation after routine, interim, and permanent corrective actions to reduce lead from an outlet device have been completed.

To ensure accurate test results the samples should be collected by following the instructions below for preparation, initial sampling, and repeat sampling.

Preparation

1. At least one school employee should be designated to assist the water system trained sampler during the collection of initial, repeat, confirmation, and check samples and to provide any additional help as necessary to complete the sampling.
2. Select up to five of the busiest locations used for drinking and cooking to be sampled and tested. These locations can be selected by observing students and staff during the morning, break, and lunch periods over as many days as needed until the busiest locations have been identified.
3. All faucets, fountains, coolers, bubblers, bottle filling stations, and filtered water dispensers located on the exterior and interior of buildings, including those located in hallways, playgrounds, classrooms, and cafeterias, should be evaluated to assure that all locations have been considered for selection. Large industrial sinks designed for washing and not intended to be used as a source of water for drinking and cooking should not be included.
4. Do not omit from the evaluation and selection process drinking water locations that are served by a point of use filter (a filter attached to the faucet or under the sink) or drinking water locations in buildings or school ground areas that are served by a water softening, conditioning, or filtration treatment system.
5. Each location selected for testing should be assigned a Sample ID. Each Sample ID should use the following format: <Water System No.>-<School ID>-<Sample ID> i.e. 1710001-005-001.
6. A Lead Sampling Plan should be prepared that includes the five sample locations and Sample IDs identified on a map of the school grounds. Only water system staff trained in sampling should be collecting the samples.
7. All samples should be collected on a Tuesday, Wednesday, Thursday or Friday morning during periods of normal school operations (school is in session) and not during summer school, summer or winter breaks, or other extended breaks. Do not collect the samples on the first day back to school following a vacation, holidays, or weekends.

8. Record the location description, date and time last used, and date and time collected in the Lead Sampling Plan.
9. All samples must be "first draw samples" meaning that at the time of sampling the drinking water locations must not have been used during the previous 6 hours. To ensure this period of inactivity it may be necessary to protect the sample locations overnight prior to collecting the samples early in the morning before students and staff arrive.
10. Do not flush a sample site for any length of time prior to the 6 hour period of inactivity and do not flush a sample site at the outlet before collection of the sample.
11. Leave all angle stops, shutoff valves, and similar devices on the sample line providing water to the drinking water location in a normal state of operation prior to sampling. Do not modify, open, or close any devices located on the sample line in preparation for collecting a sample. Doing so may cause sample results that are not representative of normal operating conditions.
12. Do not remove any filters, aerators, or screens at any sample outlet prior to collecting the samples.
13. All sample bottles must be labeled with the Sample IDs for each sample location. All samples must be collected in 1 liter wide mouth plastic bottles and all bottles must be completely filled. Make sure your laboratory provides 1 liter (not 250 mL) wide mouth sample bottles.
14. If a bottle does not fit at the sample site and cannot be completely filled, a spare 1 liter laboratory bottle may be used to partially fill and transfer the drinking water until the sample bottle is full.
15. It should be requested to the laboratory to provide unpreserved sample bottles. All samples must be delivered to the testing laboratory within 14 days of collection for preservation.
16. Cold water must be collected for all samples. If sampling from a drinking water outlet that provides cold and hot water, the cold water handle must be used for sample collection.

Initial Sampling

Initial sampling is used to determine if a drinking water outlet has a lead level that is above or below the Action Level of 15 ppb. Drinking water outlets with a test result of equal to or less than 15 ppb do not need additional testing and a water system is not required to collect additional samples when the initial sample results is less than or equal to 15 ppb.. Drinking water outlets with an initial sampling test result of greater than 15 ppb exceed the Action Level and should undergo repeat sampling. Water system staff should provide the initial test results to the school contact person and meet with the school to discuss the results within 10 days of receipt from the laboratory. In the case of an Action Level exceedance water system staff should provide the results to the school within two school business days. Following a review of the initial test results the school should document how it will proceed with each individual drinking water outlet.

1. After completing the preparation steps above, the trained sampler collects initial samples using the Initial Sampling Instructions as guidance.
2. Upon delivery of the samples to the laboratory, the standard laboratory turn-around-time for receiving results is acceptable.
3. All initial sample locations with a test result of less than or equal to 15 ppb have lead levels less than the Action Level, the location is suitable for consumption, and no further testing is needed.
4. All initial sample locations with a test result of greater than 15 ppb have a lead level that exceeds the Action Level and should be tested again by collecting a repeat sample.

5. Drinking water locations with an initial Action Level exceedance should remain in service and repeat samples collected within 10 days of receiving the initial sample results from the water system and by using the Repeat Sampling Instructions as guidance.
6. Alternatively, drinking water locations with an initial Action Level exceedance can be removed from service permanently or until addressed using the EPA 3Ts recommendations for routine, interim, and permanent corrective actions.
7. The water system cannot release the initial lead sampling data to the public for 60 days following the receipt of the initial sampling results in accordance with the permit amendment.

Repeat and Confirmation Sampling

Repeat sampling is used to confirm an initial sampling result indicating that a drinking water outlet has a lead level that is greater than 15 ppb and exceeds the lead Action Level. Confirmation sampling is used to confirm the lead concentration at a drinking water location following an initial sampling lead result greater than 15 ppb and a repeat sampling lead result less than or equal to 15 ppb. Repeat sampling should be performed within 10 days of receiving the initial sample results and, if necessary, confirmation repeat sampling should be performed within 10 days of receiving the repeat sample results. Drinking water outlets with a repeat Action Level exceedance that confirms an initial sample result should be removed from service until corrective actions and check sampling have been performed with test results that indicate the water outlet has a lead level of less than 15 ppb. Water system staff should provide the repeat test results to the school contact person and meet with the school to discuss the results within 10 days of receipt from the laboratory and in the case of an Action Level exceedance provide the results to the school within two school business days. Following a review of the repeat test results the school should document how it will proceed with each individual drinking water outlet.

1. After completing the preparation steps above, the trained sampler collects repeat samples using the Repeat Sampling Instructions as guidance.
2. Upon delivery of the samples to the laboratory it shall be requested that results are reported by the laboratory within 10 business days.
3. All repeat sample locations with a test result of greater than 15 ppb have a lead level that exceeds the Action Level and should be removed from service permanently or addressed using the EPA 3Ts recommendations for routine, interim, and permanent corrective actions to minimize students and staff exposure to lead in drinking water.
4. All repeat sample locations with a test result of less than or equal to 15 ppb should be tested again by collecting a confirmation repeat sample to confirm the lead concentration at the drinking water outlet.
5. If the confirmation repeat sample has a test result of greater than 15 ppb the outlet has a lead level that exceeds the Action Level and should be removed from service permanently or addressed using the EPA 3Ts recommendations for routine, interim, and permanent corrective actions and check sampling.
5. If the confirmation repeat sample has a test result of less than or equal to 15 ppb the lead level is less than the Action Level, the location is suitable for consumption, and no further testing is needed.
6. The water system is not required to collect any additional samples when the repeat result and confirmation repeat result are less than or equal to 15 ppb.
7. All repeat sample locations with an Action Level exceedance should remain out of service until the school has completed the corrective actions and the water system has completed check sampling identified in the Corrective Action Plan described below in the Laboratory Results section of this guidance document.

Corrective Action Check Sampling

Following the implementation of any corrective action at a drinking water outlet, check sampling should be performed to determine if the corrective action was successful in reducing the lead level to less than 15 ppb. Corrective actions are performed to reduce the lead concentration at a specific outlet; however, it is possible for a corrective action to have no effect or to increase the lead concentration at an outlet. If any check sample has a lead result of greater than the Action Level, additional corrective actions should be performed until the check sample indicates that the drinking water outlet has a lead level of less than 15 ppb. Water system staff should provide the corrective action test results to the school contact person and meet with the school to discuss the results within 10 days of receipt from the laboratory and in the case of an Action Level exceedance provide the results to the school within two school business days. The drinking water outlet should remain out of service during check sampling and until a lead level of less than 15 ppb is obtained for the test result. The water system is not required to collect additional samples when the corrective action sample result is less than or equal to 15 ppb. If successive corrective actions indicate that the lead level at a drinking water outlet cannot be reduced to equal to or less than the Action Level, the school may choose to permanently remove the outlet from service. Water system staff should provide all laboratory test results to the school contact person upon receipt and in the case of an Action Level exceedance should provide the results within two school business days. Following a review of the check sampling test results the school should document how it will proceed with each individual drinking water outlet.

1. After completing the preparation steps above, the trained sampler collects check samples using the Corrective Action Check Sampling Instructions as guidance.
2. Upon delivery of the samples to the laboratory it shall be requested that results are reported by the laboratory within 10 business days.
3. All check samples with a test result of less than or equal to 15 ppb have lead levels less than the Action Level, no further testing at the drinking water outlet is needed, and the drinking water outlet can be placed back into service.
4. The water system is not required to collect additional samples when the corrective action sample result is less than or equal to 15 ppb.
5. All check samples with a test result of greater than 15 ppb have lead levels greater than the Action Level and additional corrective actions should be implemented at the drinking water outlet.
6. Following each corrective action, collect a check sample for testing to determine if the corrective action was successful in reducing the lead level at the drinking water outlet to less than 15 ppb.
7. Complete the necessary corrective actions and check sampling until a lead level of less than 15 ppb is obtained at which time the drinking water outlet can be placed back into service.

Laboratory Concentrations

The testing laboratory may report the results of the initial and repeat samples in several different formats or units. If the report includes the units of ppb (parts per billion) or ug/L (micrograms per liter) these two are essentially the same and the values in the report can be directly compared to the lead Action Level. If the report includes the units of ppm (parts per million) or mg/L (milligrams per liter) the values in the report must be converted to ppb or ug/L before comparison to the lead Action Level. To convert between units use the following conversion factors:

Convert from ppm to ppb: 1 ppm = 1,000 ppb
Convert from mg/L to ug/L: 1 mg/L = 1,000 ug/L

For example, if the laboratory reports an initial sample result of 0.007 ppm, the conversion would be 0.007 ppm X 1,000 = 7 ppb. The drinking water outlet has a lead concentration below the Action Level of 15 ppb and no further testing is needed.

If the laboratory reports an initial sample result of 0.021 mg/L, the conversion would be 0.021 mg/L X 1,000 = 21 ug/L. Since the units of ug/L and ppb are essentially the same, the drinking water outlet has a lead concentration above the Action Level of 15 ppb and needs testing again using the Repeat Sampling Instructions.

Laboratory Results

Test results should be reviewed by both the water system and the school prior to making any decisions on Action Level exceedances, repeat, confirmation, and check sampling, corrective actions, and release of the results and testing information to the students, staff, and water system customers.

Under most conditions laboratory results are very accurate and considered final; however, under rare circumstances errors can occur during sampling or in the laboratory and test results may not reflect the true concentration of the drinking water outlet. If you feel this has happened, contact the water system staff who performed the sampling and let them know. Water system staff should contact the local SWRCB DDW office for instructions on how to proceed.

Following the review of initial test results by both the water system and the school, both parties should document which drinking water locations are below the Action Level and need no additional testing, and which drinking water locations are above the Action Level and need repeat testing.

Following review of repeat test results by both the water system and the school, both parties should document which drinking water locations have Action Level exceedances and require corrective actions.

Corrective Action Plan

It is recommended that the school prepare a Corrective Action Plan if initial sample test results exceed the Action Level. The water system may be able to assist. The Corrective Action Plan identifies all drinking water outlets that need corrective actions to bring lead levels to less than or equal to 15 ppb and check sampling to return the drinking water outlets to service. The Corrective Action Plan lists all corrective actions found to be appropriate for each individual drinking water location with an Action Level exceedance. Corrective actions such as an aerator/screen cleaning and maintenance program may be suitable for one drinking outlet while the complete replacement of the outlet may be suitable for another location. Schools should refer to the EPA 3Ts references for detailed information on corrective actions. The Corrective Action Plan should be completed before releasing the results and testing information to the students, staff, and water system customers as it will help answer questions about Action Level Exceedances and what plans the school has to address the lead contamination issues. The Corrective Action Plan should be updated with the dates that corrective actions are made, the dates check sampling is performed, and the dates each drinking water outlet is returned to service, so that a record is maintained of each drinking water outlet initially having an Action Level exceedance.

Differences Between SWRCB and EPA Sample Collection

Schools are encouraged to read the EPA 3Ts references listed in the SWRCB *Frequently Asked Questions about Lead Sampling of Drinking Water in California Schools* document. SWRCB has prepared the lead testing at schools program using the EPA 3Ts documents, however, there are differences between the two sampling procedures. The table below lists the major differences and highlights the SWRCB procedures that should be followed.

Differences Between SWRCB and EPA Sample Collection				
Sampling Step	SWRCB Sampling Use These Procedures		EPA 3Ts Sampling (Not Used)	
Lead Action Level	15 ppb	If Initial Sample greater than 15 ppb should do repeat sample	20 ppb	If Initial Sample greater than 20 ppb should do follow-up sample
Initial Sample	1 liter	Tests for lead in the sample outlet and internal plumbing	250 mL	Tests for lead in the sample outlet
Repeat Sample	1 liter	Confirms Initial Sample Result	Not used	
Confirmation Repeat Sample	1 liter	Confirms Repeat Sample Result	Not used	
Corrective Action Check Sample	1 liter	Test lead level after implementation of corrective actions	Not used	
Follow-up Sample with 30-second flush	Not used		250 mL	Test for lead in the internal plumbing
Two-step sampling process	Not used		Determines if source of lead is from sample outlet or internal plumbing	
Lead Sampling Plan and Corrective Action Plan	Record water system and school information; record sample collection information noting any important observations during sampling; complete sample location map for all samples; document all routine, interim, and permanent corrective actions implemented		Not used	
Plumbing Profile and Sampling Plan	Not used		Prepare building and plumbing details; Select sites to be tested	
Drinking Outlet Inactivity	6 hours	Sample outlet unused for at least 6 hrs prior to sampling	8-18 hours	Sample outlet unused for at least 6 hrs but no more than 18 hrs prior to sampling

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November 9, 2018

VIA CSM DROPBOX

Heather Halsey
Executive Director
Commission on State Mandates
980 Ninth Street, Suite 300
Sacramento, CA 95814

Re: *Lead Sampling in Schools, Permit Amendment No. 2017PA-SCHOOLS, City of San Diego Public Water System No. 3710020, effective January 18, 2017*, 17-TC-03, Response to Comments from DOF and SWRCB

Dear Ms. Halsey:

Please accept these comments on behalf of Claimant City of San Diego (City) in response to comments submitted by the Department of Finance (DOF) and the State Water Resources Control Board (SWRCB). These comments address DOF's and SWRCB's legal arguments as to why they believe the City is ineligible to seek reimbursement: that the Permit Amendment does not impose a new program or a higher level of service on the City, and that the City can raise water rates on all its customers to pay for free lead testing at schools.

I. Introduction

On January 11, 2018, the City submitted a test claim for costs associated with lead testing performed at public and private school campuses as required by the above referenced Permit Amendment. The Permit Amendment requires the City to perform lead testing at the request of any Kindergarten through 12th Grade school in the City's service area at no charge to the school.[1]

DOF and SWRCB both argue in their comments that the City is ineligible for subvention because providing water service is not a governmental function, and therefore lead testing conducted by a water agency is not a new program or higher level of service under state mandates law. They also argue the City is ineligible for subvention because the City has the authority to raise fees on all water ratepayers to pay for lead testing at schools under Proposition 218.

[1] Permit Amendment No. 2017PA-SCHOOLS at p. 4, § 5 (Exhibit 1 at p. 6).

At the outset, we recognize that the two arguments raised by DOF and SWRCB were also raised in consolidated test claims 10-TC-12 and 12-TC-01, regarding certain water conservation measures. While the City was preparing these comments, the Commission's decision to deny those consolidated test claims was first affirmed by the Third District Court of Appeal, and then a rehearing was granted.[2] The Court's pending decision, however, does not impact this test claim for two reasons. First, this test claim is distinguishable because the City is not alleging the majority protest provision in Proposition 218 is a barrier to raising fees, as was argued in the consolidated test claims.[3] Instead, the City is deprived of its fee authority because the Permit Amendment directs the new service be provided at no charge to the schools. Second, because the Commission determined the claimants had sufficient fee authority, the Commission did not decide whether providing water service is a governmental function under state mandates law.[4]

II. Free Lead Testing for Schools is a New Program or a Higher Level of Service

The California Constitution provides that "[w]henever the Legislature or any state agency mandates a new program or higher level of service on any local government, the state shall provide a subvention of funds to reimburse such local government for the costs of such program or increased level of service."[5]

The program created by the Permit Amendment is free lead testing for schools. The program is new in that the City was not previously required to conduct lead testing at schools.[6] Soon after SWRCB issued the Permit Amendment, the State Superintendent of Public Instruction issued a press release entitled:

State Schools Chief Tom Torlakson Announces Free Testing for Lead in Drinking Water at California Public Schools[7]

The press release indicated it was a new state program: "State Superintendent of Public Instruction Tom Torlakson announced that public schools can receive free testing for lead in drinking water under a new state program."[8] SWRCB issued a similar press release announcing the new initiative: "K-12 schools in the state can receive free testing for lead under a new initiative announced today by the State Water Resources Control Board."[9]

The program is also a higher level of service in that it mandates more lead testing than required by the federal Lead and Copper Rule. As SWRCB explains, testing performed under the Lead

[2] *Paradise Irrigation District, et al. v. Commission on State Mandates,* (2018) 27 Cal. App. 5th 1056 (rehearing granted Oct. 31, 2018).
[3] Decision on Consolidated Test Claims 10-TC-12 and 12-TC-1, at p. 19 (Dec. 5, 2014) (Exhibit 4).
[4] *Id*. at p. 29.
[5] Cal. Const. art. XIII B, §6.
[6] Declaration of Doug Campbell ¶ 11 (Exhibit 5).
[7] California Department of Education News Release #17-8 (Jan. 30, 2017) (Exhibit 2).
[8] *Id*.
[9] Media Release, *California Water Systems to Provide Lead Testing For Schools*, (Jan. 17, 2017) (Exhibit 3).

and Copper Rule is primarily done at private residences.[10] Residences are not selected randomly, but are targeted for testing based on the age and characteristics of plumbing in the area.[11] For large agencies like the City, lead testing is performed at 100 locations, which may be reduced to 50 locations if prior testing shows lead and copper are below certain levels.[12] Testing frequency can likewise be reduced from every six months to every three years.[13] The City is currently on a three year schedule.[14] Under the first year of the Permit Amendment, however, the City received requests for lead testing from 255 schools.[15] The Permit Amendment prohibits counting any of the lead testing performed at schools towards satisfying the Lead and Copper Rule.[16] The Permit Amendment mandates a higher level of service in that it requires lead testing be done at schools in addition to targeted private residences, and in numbers in excess of what is required by the Lead and Copper Rule.

As SWRCB explains, however, a new program may not be eligible for reimbursement under state mandates law if it is required by a law of general application.[17] The California Supreme Court identified the programs subject to subvention as being "[1] programs that carry out the governmental function of providing services to the public, or [2] laws which, to implement a state policy, impose unique requirements on local governments and do not apply generally to all residents and entities in the state."[18] These are alternative tests; satisfaction of either test will establish a program subject to reimbursement under state mandates law.[19] Both tests are satisfied in this case.

Under the first test, the service being provided under the Permit Amendment is free lead testing. Lead testing furthers two governmental functions of providing services to the public. The first government function is providing water service, in that the Permit Amendment was issued to the City as a local water agency, and water agencies conduct targeted residential lead testing pursuant to the Lead and Copper Rule. The second governmental function is schooling of children, because schools are obligated to provide a safe environment for students and the Permit Amendment requires lead testing only on school property.

Under the second test, lead testing implements a State policy of providing safe drinking water to school students. Lead testing under the Permit Amendment does not apply to all residents and entities in the state; it applies uniquely to the City as a local water agency. The fact that identical permit amendments were issued to local water agencies that are privately-owned does not preclude the Permit Amendment from being a new program under the second test.

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[10] SWRCB Comments at p. 6.
[11] 40 C.F.R. § 141.86(a).
[12] 40 C.F.R. § 141.86(c).
[13] 40 C.F.R. § 141.86(d).
[14] Declaration of Doug Campbell ¶ 13.
[15] *Id*. at ¶ 7f.
[16] Permit Amendment at p. 5, § 6 (Exhibit 1 at p. 7) ["The water system may not use any lead samples collected as part of these special school samples to satisfy federal or state Lead and Copper Rule requirements."]
[17] SWRCB Comments at p. 8.
[18] *County of Los Angeles v. State of California*, (1987) 43 Cal. 3d 46, 56.
[19] *Carmel Valley Fire Protection District v. State of California*, (1987) 190 Cal. App. 3d 521, 537.

A. Water service is a governmental function that provides services to the public.

The City of San Diego is a charter city. The City Charter imposes a legal obligation and responsibility on the City to provide water service.[20] The City is empowered to adopted rules and regulations necessary for the regulation, use, and government of the water system.[21] The City has approximately 281,000 retail water connections.[22] The City Council must approve rates and charges for water service.[23] Providing water service is a function of City government.

SWRCB argues that the City is ineligible for reimbursement because water service is not a function "peculiar" to government, and therefore not a governmental function.[24] But the first test established by the California Supreme Court does not require that the function be "peculiar" to government, only that the program "carry out the governmental function of providing services to the public."[25] The word "peculiar" is not in the test. The Supreme Court used the term "peculiar" only to distinguish programs that are forced on local government from laws that apply generally to all state residents and entities.[26] The opinion of *Carmel Valley Fire Protection District v. State of California* cited by SWRCB, certainly found that "fire protection is a peculiarly governmental function" in satisfying the first test, despite the fact that private sector fire fighters provide the same service.[27] The opinion does not say, however, that the first test can only be satisfied if the governmental function is peculiar to government, as SWRCB suggests.

The first test only requires that the governmental function be that "of providing services to the public." SWRCB does not cite a published opinion where the government was providing a public service, but subvention was denied because the government function was not peculiar to government. Instead, instances where the first test was not satisfied involved situations where the new requirements did not increase the level of service provided to the public, such as requirements to provide employees with unemployment insurance coverage[28], worker's compensation benefits,[29] or to upgrade public buildings to comply with statewide elevator safety regulations.[30] These requirements only increased the government's incidental cost of providing existing public services rather than requiring new services or programs.

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[20] San Diego Charter § 26.1.
[21] San Diego Charter § 3.
[22] Declaration of Lee Ann Jones-Santos ¶ 5 (Exhibit 6). In its comments, the SWRCB indicates the City has "over 3,000,000 customers to fund the school testing." SWRCB Comments at p.2. The City does not understand how SWRCB arrived at this figure, seeing as the population of the City of San Diego is only 1.4 million.
[23] *See* Cal. Const. art. XIII D, § 6(a)(2).
[24] *See* SWRCB Comments at p. 8 ["The California Supreme Court has established that only those programs which involve a function peculiar to government, or which impose unique requirements on local government, are eligible for subvention."] *See also Id*. at p. 9 ["The Permit Amendment Does Not Involve a Function Peculiar to Government"].
[25] *County of Los Angeles*, *supra*, 43 Cal. 3d at 56.
[26] *County of Los Angeles*, *supra*, 43 Cal. 3d at 56-57.
[27] *Carmel Valley Fire Protection District*, *supra*, 190 Cal. App. 3d at 537.
[28] *City of Sacramento v. State of California*, (1990) 50 Cal. 3d 51.
[29] *County of Los Angeles v. State of California*, (1987) 43 Cal. 3d 46.
[30] *County of Los Angeles v. Department of Industrial Relations*, (1989) 214 Cal. App. 3d 1538.

SWRCB also relies on a 100-year-old line of cases on sovereign immunity, to argue that cities operating a water utility are performing a "proprietary function" and not a "governmental function." Since then, however, Courts have determined "[t]he labels 'governmental function' and 'proprietary function' are of dubious value in terms of legal analysis in any context."[31] "Whatever local government is authorized to do constitutes a function of government, and when a municipality acts pursuant to granted authority it acts as government and not as a private entrepreneur."[32] Water service provided by public agencies no longer carries the indicia of a proprietary function or private enterprise due to Proposition 218 (discussed below), which eliminates profit from water service charges.

SWRCB's reliance on the Service Duplication Law is confusing.[33] The Legislature recognized that private water utilities may be reluctant to invest in facilities "to meet the present and prospective needs" of its customers when there is a possibility that local government could exercise its authority to provide water service in the same area.[34] State law was adopted in 1965 to provide compensation to private water utilities in the event that happens.[35] But this law does not amount to a legislative determination that water service is not a governmental function. If anything, the Service Duplication Law recognizes that water service was transitioning from a private to a predominantly governmental function by providing compensation to private utilities for lost business. Now, over 50 years later, that transition is substantially complete.

The data provided by SWRCB demonstrates that water service is predominantly provided by public agencies. SWRCB and DOF argue that water service is mostly a private enterprise, in that 75% of drinking water systems, or 5,314 of 6,970 water systems, in the State are privately owned.[36] These figures were pulled directly from tables provided by SWRCB.[37] However, the same tables show that 81% of the population served by drinking water systems statewide, or 33.8 million of 41.6 million people, receive their water service from public entities.[38] Similarly, 81% of the water service connections, or 7.7 million of the 9.5 million connections, are connections to public entities.[39] The City has no means to verify the accuracy of this data, but assuming that SWRCB and DOF are correct that 75% of drinking water systems are privately owned, then the same data tables demonstrate that public agencies serve 81% of people in the State who have drinking water service. Such a large percentage of the State population receiving water service from public entities is strong evidence that water service is a governmental function, more persuasive than the fact that small, privately owned water systems outnumber large, publicly owned systems.

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[31] *Pacific Telephone & Telegraph Company v. Redevelopment Agency of the City of Redlands*, (1977) 75 Cal. App. 3d 957, 968.
[32] *Northeast Sacramento County Sanitation District v. Northridge Park County Water District of Sacramento County*, (1966) 247 Cal. App. 2d 317, 325, quoting *Washington Township v. Village of Ridgewood*, (1958) 26 N.J. 578, 584, 141 A.2d 308, 311.
[33] SWRCB Comments at p. 13.
[34] Cal. Pub. Util. Code § 1501.
[35] *Id*. at § 1503; Stats. 1965, c. 1752, p. 3925, Sec. 1.
[36] SWRCB Comments at p. 2; DOF Comments at p. 2.
[37] SWRCB Comments, Attachment 101, pp. 406-409 (Exhibit 7).
[38] *Id*. (using third column totals).
[39] *Id*. (using fourth column totals).

Nevertheless, the fact that private utilities also provide water service does not preclude water service from being a governmental function. In *Carmel Valley Fire Protection District*, the Court determined fire protection is a governmental function even though fire protection is also provided by private firefighters:

> This classification is not weakened by the State's assertion that there are private sector fire fighters who are also subject to the executive orders. Our record on this point is incomplete because the issue was not presented below. Nonetheless, we have no difficulty in concluding as a matter of judicial notice that the overwhelming number of fire fighters discharge a classic governmental function.[40]

If a service had to be exclusively provided by government to be eligible for subvention, then presumably many of this Commission's decisions involving public schools should have been denied because of the prevalence of private schools. Such a rationale would create a loophole for the State to perpetually avoid subvention by including a handful of private entities within the scope of any new programs it imposes on local government.

The California Supreme Court explained the concern the voters had when the Constitution was amended to address state mandates:

> The concern which prompted the inclusion of section 6 in article XIIIB was the perceived attempt by the state to enact legislation or adopt administrative orders creating programs to be administered by local agencies, thereby transferring to those agencies the fiscal responsibility for providing services which the state believed should be extended to the public.[41]

This is precisely what the Permit Amendment is doing: creating a new lead testing program for schools and transferring the cost and administration of the program to the City. Water service is a governmental function because it is predominately provided by public agencies. Lead testing of drinking water at schools is a service to the public. Therefore, the Permit Amendment is a new program eligible for reimbursement under the first test established by the Supreme Court.

B. Public schooling is a governmental function that provides services to the public.

The lead testing program in the Permit Amendment carries out a second governmental function of ensuring safe schools. "Providing public schooling clearly constitutes a governmental function, and enhancing the safety of those who attend such schools constitutes a service to the public."[42] Schools are obligated to provide free drinking water to students, or to adopt a resolution explaining why fiscal constraints or health and safety concerns prevent it.[43] The City

[40] *Carmel Valley Fire Protection District*, *supra*, 190 Cal. App. 3d at 537.
[41] *County of Los Angeles*, *supra*, 43 Cal. 3d at 56.
[42] *San Diego Unified School District v. Commission on State Mandates*, (2004) 33 Cal. 4th 859, 879.
[43] Cal. Educ. Code § 38086.

is enhancing the safety of students by performing lead testing of drinking water on school campuses for free.

The history of the Permit Amendment demonstrates its purpose is to provide safe schools, a governmental function, while shifting financial responsibility to local water agencies. In September 2015, the Legislature passed Senate Bill 334 (SB 334), a proposal to amend the California Education Code to ensure that drinking water provided by schools does not contain lead.[44] Inherent in such a requirement is an obligation to test the water for lead. The bill indicated it was imposing a state-mandated local program on school districts.[45] The Governor vetoed SB 334, expressing his concern over the cost to the State:

> **"I agree that all California students should have access to safe drinking water but this bill creates a state mandate of uncertain but possibly very large magnitude."**[46]

Instead of signing the bill, the Governor directed SWRCB to implement lead testing at schools through local water agencies as part of the Lead and Copper Rule.[47] The Governor's intent was clearly to avoid spending State funds, and to shift the costs of school lead testing to local water agencies. SWRCB followed the Governor's direction by issuing the Permit Amendment to the City to perform lead testing on school campuses at no charge.

Had SB 334 become law and schools had to test water for lead to confirm their students had safe, clean drinking water, the schools would have been performing a governmental function subject to reimbursement from the State. Lead testing at schools does not lose its characterization as a "governmental function of providing services to the public" under the Supreme Court's test, merely because the obligation is transferred from schools to water agencies.[48] The City is performing a governmental function, albeit a function associated with schooling, when the City tests for lead on school property pursuant to the Permit Amendment.

C. The Permit Amendment imposes a unique requirement on the City that does not apply generally to all residents and entities in the state.

The Supreme Court's second test to identify programs subject to subvention is "laws which, to implement a state policy, impose unique requirements on local governments and do not apply generally to all residents and entities in the state."[49] This includes orders issued by State agencies.[50] The State policy being implemented by the Permit Amendment is providing safe drinking water to school students.

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[44] Senate Bill 334, 2015-2016 Sess. (Sen. Leyva).
[45] *Id*.
[46] Governor's Veto Message on SB 334 (Oct. 9, 2015).
[47] *Id*.
[48] *See Lucia Mar Unified School District v. Honig*, (1988) 44 Cal. 3d 830, 835 [Shifting funding of an existing program for disabled students from the State to a local entity is a new program under state mandates law.]
[49] *County of Los Angeles*, *supra*, 43 Cal. 3d at 56.
[50] *See Carmel Valley Fire Protection District*, *supra*, 190 Cal. App. 3d at 537; Cal. Const. art. XIII B, §6.

SWRCB argues that the Permit Amendment does not impose unique requirements on the City because identical permit amendments were issued to over 1,100 water agencies.[51] SWRCB insists the Permit Amendment "simply effectuates" the Safe Drinking Water Act, a law SWRCB characterizes as law of general application that precludes the Permit Amendment from being a program subject to reimbursement under the second test.[52] However, in characterizing the Act as a law of general application, SWRCB relies only on the legislative findings which broadly declare that every resident has the right to safe drinking water, and water systems must deliver pure, wholesome, potable water.[53] SWRCB does not cite any substantive provisions in the Safe Drinking Water Act that "apply generally to all residents and entities in the state" within the meaning of the second test, or explain how such a provision is implemented by the Permit Amendment.

The Permit Amendment applies specifically to the City. It does not apply generally to all residents and entities in the State. Even collectively considering all 1,100 permit amendments issued by SWRCB, they only apply to local water agencies with schools in their service areas, not to everyone in the State. The Permit Amendment does not require lead testing be performed for all state residents and entities either, only for schools. Collectively, the permit amendments apply uniquely to water agencies in the same way the Court found the requirement for fire protective gear applied uniquely to public and private fire protection agencies.[54] The permit amendments do not need to exclusively apply to publicly-owned water agencies to satisfy the uniqueness element of the second test.[55]

Under the second test, examples of laws that apply generally to all residents and entities in the state include requirements to provide employees with unemployment insurance coverage[56], worker's compensation benefits,[57] or to upgrade public buildings to comply with statewide elevator safety regulations.[58] Subvention was denied in these cases because the requirements applied to everyone, not just to local government. Unlike these examples, though, the Permit Amendment only applies to the City. Those in the State who do not provide water service do not have to comply with the Permit Amendment.

The Permit Amendment satisfies all the elements of the second test. The Permit Amendment is implementing a State policy of providing safe drinking water to school students. The policy is implemented by obligating local water agencies to test for lead on school property. The obligation to test for lead does not apply generally to all residents and entities in the State, but

[51] SWRCB Comments at p. 14.
[52] *Id*. at p. 15.
[53] *Id*.
[54] *Carmel Valley Fire Protection District*, *supra*, 190 Cal. App. 3d at 538.
[55] *See County of Los Angeles v. Commission on State Mandates*, (2007) 150 Cal. App. 4th 898, 919 ["In any event, the applicability of permits to public and private discharges does not inform us about whether a particular permit or an obligation thereunder imposed on local governments constitutes a state mandate necessitating subvention under article XIII B, section 6."]
[56] *City of Sacramento v. State of California*, (1990) 50 Cal. 3d 51.
[57] *County of Los Angeles v. State of California*, (1987) 43 Cal. 3d 46.
[58] *County of Los Angeles v. Department of Industrial Relations*, (1989) 214 Cal. App. 3d 1538.

uniquely to local water agencies. Therefore, the Permit Amendment is a new program eligible for reimbursement under the second test established by the Supreme Court.

III. The Permit Amendment Deprives the City of its Fee Authority to Charge for Lead Testing.

This test claim would not have been necessary if the Permit Amendment had allowed the City to charge the schools for lead testing performed at their request. By mandating that the City perform lead testing for free, the Permit Amendment has ensnared the City in constitutional web of fees and charges, where the only ways out are to spend local tax revenue or to seek reimbursement through this Commission.

A. Proposition 218 prohibits the City from charging all water ratepayers for lead testing done at the request of schools.

Proposition 218 amended the California Constitution in 1996 by adding articles XIII C and XIII D. Section 6 of article XIII D added procedural and substantive requirements for new and existing property related fees and charges. Charges for water delivered to property owners and residents are property-related fees subject to these restrictions.[59]

The procedural requirements imposed by Proposition 218 include prior notice, a public hearing, and an opportunity to protest new or increased fees or charges.[60] An agency is prohibited from adopting a proposed fee or charge if a majority of the property owners submit written protests against it.[61] The Court of Appeal in *Paradise Irrigation District* recently granted a rehearing, where it will decide whether the majority protest provision divests the claimants of their authority to levy fees.[62] The City has not alleged the majority protest provision is a barrier to its fee authority in this test claim.

Instead, the Permit Amendment divests the City of its authority to levy fees by ordering the City to provide a new service at no charge.[63] Without the ability to charge the schools for a new service provided exclusively to them, the cost of the new service is being absorbed by all City ratepayers. This places the City's water utility in violation of substantive (as opposed to procedural) requirements of Proposition 218, which must be cured.

Proposition 218 introduced five substantive requirements to extend, impose, or increase property-related fees and charges:[64]

> (1) Revenues derived from the fee or charge shall not exceed the funds required to provide the property related service.

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[59] *Bighorn Desert View Water Agency v. Verjil*, (2006) 39 Cal. 4th 205, 217.
[60] Cal. Const. art XIII D, § 6(a).
[61] Cal. Const. art XIII D, § 6(a)(2).
[62] *Paradise Irrigation District, supra,* (2018) 27 Cal. App. 5th 1056 (rehearing granted Oct. 31, 2018).
[63] Permit Amendment at p.4, § 5 (Exhibit 1 at p. 6).
[64] Cal. Const. art XIII D, § 6(b).

> (2) Revenues derived from the fee or charge shall not be used for any purpose other than that for which the fee or charge was imposed.
>
> (3) The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel.
>
> (4) No fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Fees or charges based on potential or future use of a service are not permitted. Standby charges, whether characterized as charges or assessments, shall be classified as assessments and shall not be imposed without compliance with Section 4.
>
> (5) No fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library services, where the service is available to the public at large in substantially the same manner as it is to property owners.

The first and second listed requirements restrict the City from collectively charging its customers more than it costs to provide water service.[65] The City cannot operate its water system at a profit. The third requirement tasks the City with apportioning the total cost of operating its water system among its customers based on the cost of providing water service to each customer.[66] The purpose of this requirement is to protect customers from having to pay rates that are higher than the cost of providing service to them.[67] This prevents the City from using revenue from certain water customers to subsidize the cost of providing services to other customers.

The SWRCB contends there are no barriers to the City raising water rates to cover the costs associated with the Permit Amendment.[68] The SWRCB believes that the Permit Amendment confers a direct benefit on all water ratepayers, not just the schools, in the form of increased property values and ensuring the City's water does not contain lead.[69] The SWRCB therefore reasons that because all water ratepayers directly benefit, all water ratepayers can pay for lead testing at schools. It is not that simple.

First, raising water rates to cover the cost of the Permit Amendment would ultimately violate the Permit Amendment itself. The City is legally obligated by Proposition 218 to apportion the cost of service based on the relative benefits received by its customers.[70] Proposition 218 further prohibits the City from charging customers for services that are not immediately available to

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[65] *Howard Jarvis Taxpayers Association v. City of Roseville*, (2002) 97 Cal. App. 4th 637, 647-648.
[66] *City of Palmdale v. Palmdale Water District*, (2011) 198 Cal. App. 4th 926, 936-937.
[67] *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano*, (2015) 235 Cal. App. 4th 1493, 1503.
[68] SWRCB Comments at p. 15.
[69] *Id*. at pp. 15-16.
[70] *Capistrano Taxpayers Association*, *supra*, 235 Cal. App. 4th at 1503 [Low water users cannot pay for water recycling facilities that would not be necessary but for higher water consumers.]

them.[71] The schools, as the exclusive and direct recipients of lead testing under the Permit Amendment, benefit the most in that the testing assesses school pipes and fixtures for sources of lead. Lead testing is not available to the rest of the City's water ratepayers under the Permit Amendment, so they do not receive the benefit of having their own properties evaluated. The benefits of higher property values and testing of City water that SWRCB says are direct benefits to all ratepayers, are really collateral or incidental benefits. Any water rate increase apportioning the cost of lead testing among City ratepayers would fall primarily on schools, the direct and primary beneficiary of the lead testing. The Permit Amendment, however, prohibits charging a school for lead testing. A school is being charged for lead testing whether the City sends the school an invoice when the testing is done, or passes on the cost of lead testing to a school through a water rate increase.

Second, even assuming there is a plausible connection between lead testing at schools and higher property values in the surrounding neighborhoods, higher property values do not benefit all water ratepayers. Water ratepayers are both homeowners and renters.[72] While a homeowner may benefit from a higher resale value of a home, a tenant will not. Higher property values cannot justify charging all water ratepayers for a service they are not receiving.

Third, lead testing done at the request of a school is not a property-related service that the City can bundle within water rates under Proposition 218. In *Richmond v. Shasta Community Services District*, the California Supreme Court addressed the question whether a water connection fee (also known as a capacity fee) for new service was subject to Proposition 218.[73] The Court distinguished fees for ongoing water service from one-time fees to connect to a water system:

> A fee for ongoing water service though an existing connection is imposed "as an incident of property ownership" because it requires nothing other than normal ownership and use of property. But a fee for making a new connection to the system is not imposed "as an incident of property ownership" because it results from the owner's voluntary decision to apply for the connection.[74]

The Court concluded that water connection fees are not governed by Proposition 218 because the fees are triggered by the voluntary decision of property owners to obtain water service.[75]

Richmond demonstrates that not all fees and charges related to water service are governed by Proposition 218. Fees or charges imposed because of a voluntary decision of a property owner are not imposed "as an incident of property ownership" and fall outside of Proposition 218.[76] Under the Permit Amendment, the City's obligation to conduct lead testing is similarly triggered

[71] Cal. Const. art XIII D, § 6(b)(4).
[72] Declaration of Lee Ann Jones-Santos ¶ 4.
[73] *Richmond v. Shasta Community Services Dist.*, (2004) 32 Cal. 4th 409 [A water connection fee is neither an assessment nor a property-related fee under Proposition 218].
[74] *Id.* at 427.
[75] *Id.* at 427-428.
[76] *Id.*; *See also Apartment Ass'n of Los Angeles County, Inc. v. City of Los Angeles*, (2001) 24 Cal. 4th 830, 840 [Fee imposed to inspect rental property is not a fee imposed as an incident of property ownership under Proposition 218].

by a voluntary decision of a school to request the service. Lead testing on private property is not an activity associated with ongoing water service, so a fee for lead testing cannot be imposed "as an incident of property ownership" under Proposition 218. Rather, the City has separate fee authority under Proposition 26 that it could exercise, but for the language in the Permit Amendment that prohibits the City from charging the schools for the service.

B. The Permit Amendment prohibits the City from exercising its fee authority under Proposition 26.

The City's authority to levy fees or charges for lead testing mandated by the Permit Amendment is governed by Proposition 26, a constitutional amendment adopted by the voters in 2010. Proposition 26 further tightened the restrictions on local government revenue imposed by Propositions 13 and 218 by defining a tax as "any levy, charge, or exaction of any kind imposed by a local government, except the following:"[77]

> (1) A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.
>
> (2) A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.
>
> (3) A charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof.
>
> (4) A charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property.
>
> (5) A fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law.
>
> (6) A charge imposed as a condition of property development.
>
> (7) Assessments and property-related fees imposed in accordance with the provisions of Article XIII D.

[77] Cal. Const. art. XIII C, § 1(e).

A fee or charge is a tax that must be approved by the voters unless the fee or charge meets one of these seven exceptions.[78] The last of the seven exceptions is for property-related fees and charges under Proposition 218, but because lead testing performed under the Permit Amendment is not provided as an incident of property ownership (discussed above), the City cannot avail itself of that exception to raise water rates without voter approval. The third through sixth exceptions are inapplicable to a fee for lead testing because the City is not acting as a regulator in performing the service, the City is not charging the schools to enter City property, the City is not fining the schools for violating the law, and the City is not imposing a development fee, respectively. The first exception for "a specific benefit conferred or privilege granted directly to the payor" does not apply either, because the City is not issuing a school a permit or a license to engage in any activity.

This leaves only the second exception, which would ordinarily give the City sufficient fee authority in situations like this: "[a] charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product."[79] The City is providing lead testing services on school property at the request of each school, for which the City could ordinarily charge each school an amount equivalent to the cost of providing the service. The problem is the Permit Amendment prohibits the City from charging the schools, even though the schools are receiving the government service. The school is not the "payor," so the second exception does not apply. Therefore, by default, the City's water ratepayers become the "payor" even though they are not requesting or receiving the service. Without any applicable exceptions, charging water ratepayers for lead testing provided to schools for free is a tax subject to voter approval under Proposition 26.

IV. The Permit Amendment Requires the City to Expends Funds Subject to the Taxing and Spending Limitations of Articles XIII A and XIII B to avoid a violation of Proposition 218.

The City of San Diego is a charter city providing a full range of services for its residents. The City provides police and fire protection, lifeguards, water service, wastewater service, trash collection, libraries, park and recreation facilities, street and storm drain maintenance, development services, and many other services. The City is a local government, subject to the taxing and spending limitations of Articles XIII A and XIII B of the California Constitution.[80]

There are instances in the City where different City departments work together to provide public services, including general fund departments, and utility departments funded through fees and charges. Several general fund departments support the Public Utilities Department's efforts to

[78] Cal. Const. art. XIII C, § 2.
[79] Cal. Const. art. XIII C, § 1(e)(2).
[80] Cal. Const. art. XIII A, § 4; Cal. Const. art. XIII B, § 8(d).

provide water service.[81] Water ratepayer funds are used to reimburse the City's general fund for this support, consistent with Proposition 218.[82]

Likewise, the Public Utilities Department helps the City provide other public services. For example, the City's water utility owns surface reservoirs and open space land that is popular for boating, fishing, hiking and picnicking.[83] These recreational activities are available to the general public, whether or not they are City water ratepayers.[84] Proposition 218 prohibits using water ratepayer funds for services available to the general public:

> No fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library services, where the service is available to the public at large in substantially the same manner as it is to property owners.[85]

The City's water utility charges the City's general fund about $2.5 million each year for providing park and recreation activities.[86] This fund transfer ensures that water ratepayers are not paying for unrelated activities or programs, consistent with Proposition 218.

By mandating free service, the Permit Amendment similarly makes the City's general fund responsible for the cost of lead testing unless reimbursement is received from the State. The City's water utility has paid for the lead testing at schools to date, pending reimbursement from another source.[87] The City cannot increase water rates, or use existing water ratepayer funds, to pay for lead testing because lead testing pursuant to the Permit Amendment is not a property-related service. The Permit Amendment also prohibits the City from charging the schools for the service they receive. The liability of tax revenue in the City's general fund to pay for lead testing makes the City eligible to pursue subvention from the State.

V. Conclusion

The Permit Amendment imposes a state-mandated local program under both legal tests established by the California Supreme Court. Lead testing performed at schools carries out the governmental functions of providing water service and safe schooling of children. The Permit Amendment also imposes requirements on the City that do not apply generally to all residents and entities in the State, to implement a State policy of providing safe drinking water to school students. The City could ordinarily charge the schools a fee to cover the cost of lead testing, but by mandating that the service be provided at no charge, the Permit Amendment requires the City

[81] For example, water service is supported by the City Attorney's Office for legal services, the Public Works Department for capital improvement projects, and the Real Estate Assets Department for property management.
[82] *See Moore v. City of Lemon Grove*, (2015) 237 Cal. App. 4th 363.
[83] Declaration of Lee Ann Jones-Santos ¶ 8.
[84] *Id*.
[85] Cal. Const. art XIII D, § 6(b)(5).
[86] Declaration of Lee Ann Jones-Santos ¶ 9.
[87] *Id*. at ¶ 10.

to spend tax revenue to avoid violating Constitutional restrictions on the use of water ratepayer funds. Therefore, the City respectfully requests this test claim be approved.

Pursuant to Cal. Code Regs. tit. 2, § 1181.3(a), I certify and declare under penalty of perjury that the foregoing facts are true and correct to the best of my personal knowledge, information, or belief. I further declare that all exhibits are true and correct copies of such documents as they exist in the City's files, or as they were obtained from publicly available sources.

Sincerely,

MARA W. ELLIOTT, City Attorney

By
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Sr. Chief Deputy City Attorney

cc: Service List via CSM Dropbox
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Commission on State Mandates

LATE FILING

November 7, 2014

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Re: Response to DWR Comments on Draft Proposed Decision Re: Test Claim No. 10-TC-12 (Water Conservation), consolidated with Test Claim No. 12 TC 01 (Agricultural Water Measurement)

Dear Ms. Halsey:

This letter is in reply to comments of the Department of Water Resources (DWR), filed on October 17, 2014, which raise issues not addressed in the Draft Proposed Decision issued on July 31, 2014. In its comment letter, DWR urges the Commission on State Mandates (Commission) to deny subvention to the Claimants in consolidated Test Claims 10-TC-12 and 12-TC-01 based on a finding that the test claim statutes and regulations at issue do not constitute a "program" as that term is used in article XIII B, section 6, of the California Constitution (Section 6).[1] DWR contends that if the laws and regulations at issue in the consolidated test claims are not "programs," then the Claimants are not eligible for subvention.

The word "program," as used in Section 6, has two alternative definitions: (1) "programs that carry out the governmental function of providing services to the public" and (2) "laws which, to implement a state policy, impose unique requirements on local governments and do not apply generally to all residents and entities in the state."[2] Activities mandated by a "program" that falls within either of these two meanings may be eligible for reimbursement.[3] Both definitions apply in these Test Claims.

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1 "Whenever the Legislature or any state agency mandates a new program or higher level of service on any local government, the State shall provide a subvention of funds to reimburse that local government for the costs of the program or increased level of service . . . ." Cal. Const., art. XIII b, § 6(a).

2 *County of Los Angeles v. State of California* (1987) 43 Cal.3d 46, at p. 56.

3 *Carmel Valley Fire Protection Dist. v. State of California* (1987) 190 Cal.App.3d 521, at p. 537.

In its comments, DWR argues that the first definition does not apply because it claims that, in order to be a "program," the "service" provided to the public must be an "*exclusively* governmental function," and DWR claims that water service is not an exclusively governmental function. DWR also contends that the second definition of "program" does not apply because the laws and regulations at issue in the test claim apply to private and public entities alike, and therefore do not impose "unique requirements on local governments," but rather "apply generally to all residents and entities in the state." DWR's arguments are flawed for the reasons explained below.

I. The Statutes and Regulations at Issue in this Test Claim Constitute "Programs that Carry Out the Governmental Function of Providing Services to the Public."

DWR argues that the test claim statutes and regulations are not a "program" eligible for reimbursement because the provision of water service is not a "uniquely" or "exclusively" governmental function.[4] However, nothing in the definition of "program" requires the service provided to the public to be uniquely or exclusively "governmental."[5] Instead, it only requires that the program relate to a service that is provided as a function of government.[6]

Here, the Claimants are all governmental entities organized for the specific statutory purpose of providing water to the public.[7] The California Water Code provides enabling legislation for many types of governmental entities whose main purpose is to perform the governmental function of providing water service to the public.[8] Contrary to DWR's assertions, these agencies' functions are recognized by the courts as being governmental functions.[9] As a result, there can be no doubt that the Claimants and all other affected governmental entities are "carry[ing] out the governmental function of providing [water] service[] to the public" when implementing the mandated actions at issue in the consolidated test claims.

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4 DWR Letter at pp. 5, 7.

5 See *County of Los Angeles*, *supra*, 43 Cal.3d at p. 56.

6 *Id.*

7 E.g., Water Code § 22075 et seq. (irrigation districts); Water Code § 35400 et seq. (California water districts).

8 See, e.g., Water Code Divisions 11 through 21.

9 E.g., *Imperial Irrigation District v. State Water Resources Control Board* (1990) 255 Cal.App.3d 548, 566 ["Irrigation districts . . . are public agencies performing governmental functions . . . ."]; *Northeast Sacramento Cty. Sanitation Dist. v. Northridge Park Cty. Water Dist.* (1966) 247 Cal.App.3d 317, 325 ["[Whatever] local government is authorized to do constitutes a function of government"]; *Johnson v. Arvin-Edison Water Storage Dist.* (2009) 174 Cal.App.4th 729, 741.

DWR's arguments are also inapt to the extent they rely almost exclusively on early-20th century tort cases that attempted to distinguish between "governmental" as opposed to "corporate" or "proprietary" functions of government.[10] This line of reasoning was rejected by the California Supreme Court in 1961 in *Muskopf v. Corning Hospital District* (*Muskopf*),[11] and in any event has never been applied to subvention cases. DWR attempts to argue that this distinction applies in modern subvention cases because one subvention case, *Carmel Valley Fire Protection District v. State of California* (*Carmel Valley*),[12] cited a "pre-*Muskopf* sovereign immunity case" and therefore somehow resurrected the rejected doctrine.[13] However, the case in question is actually post-*Muskopf* and does not rely on the rejected logic.[14] Instead, the cited text states only that certain sections of the Government Code control governmental tort immunity for fire protection efforts, among others.[15] To construe that case or *Carmel Valley* as relying on or supporting the pre-*Muskopf* corporate/governmental distinctions is wholly inaccurate.

Even if this distinction did apply here, DWR admits that "[t]he relative number of public versus private entities engaged in an activity" could be relevant in "determining whether an activity constitutes a 'governmental function.'"[16] Here, no fewer than 83.7% of the urban water suppliers affected by the statutes and regulations at issue are governmental entities.[17] And DWR does not assert—nor have Claimants found—that *any* of the agricultural water suppliers affected by the test claim statutes and regulations (those that serve at least 25,000 irrigated acres) are

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[10] DWR Letter at pp. 4-6.

[11] (1961) 55 Cal.2d 211.

[12] (1987) 190 Cal.App.3d 521, 537.

[13] DWR Letter at p. 6

[14] See *County of Sacramento v. Superior Court* (1972) 8 Cal.3d 479, 481, as cited in *Carmel Valley Fire Protection Dist. v. State of California* (1987) 190 Cal.App.3d 521, 537.

[15] See *County of Sacramento, supra,* 8 Cal.3d at pp. 481-482 (implicitly referring to, *inter alia,* Government Code § 850 et seq.).

[16] DWR Letter at p. 1.

[17] DWR Letter at p. 3. This lower figure is based on DWR's calculation. We note that the list of "public" and "private" water service entities appended to DWR's comment letter contains errors. On page 2 of the list of "private retail water suppliers," DWR has included South Feather Water and Power Agency as a private supplier. South Feather is a public agency—an irrigation district—and is one of the public agency test claimants herein. This list also includes 21 separate entries for California Water Services Company, 17 entries for Golden West Water Company, and 5 entries for California-American Water Company. There are actually only 30 total private urban water suppliers affected by these mandates, compared to 370 public entities. As such, only 7.5% of the urban water suppliers affected by the test claim statutes and regulations are private entities, and 92.5% are public entities. (These numbers differ slightly from those found in the August 7, 2013, Claimants' Rebuttal because the October 17, 2014, DWR Letter used more recent data.)

private entities.[18] The agricultural water conservation mandates are directed entirely to public agencies.

Given that water service in California is overwhelmingly provided by government agencies, DWR's claim that water service is not a "governmental function" is not supported by the facts. Further, California statutes and jurisprudence recognize that the provision of water service by governmental entities created for that purpose is a governmental function. Because the statutes and regulations at issue constitute "programs that carry out the governmental function of providing services to the public," they are the proper subject for these consolidated test claims.

II. The Statutes and Regulations at Issue Here "Impose Unique Requirements on Local Governments and Do Not Apply Generally to All Residents and Entities in the State."

DWR argues that "a law that governs private and public entities alike is not a 'program' for purposes of" state subvention,[19] because it applies generally to all residents and entities in the state and does not impose unique requirements on local government. DWR further argues that the "relative proportion" of public versus private entities affected by a law is "not relevant" to this determination.[20] These arguments are incorrect and are disproven in the very authority upon which DWR relies.

In *Carmel Valley*, the court found that a new law requiring all fire protection entities in the state to purchase certain protective clothing and equipment was a new mandate reimbursable under Section 6.[21] Although the court explicitly acknowledged that "private sector fire fighters" were also subject to the mandate, it held that "[t]he requirements imposed on local governments are . . . unique because fire fighting is *overwhelmingly* engaged in by local agencies."[22] The fact that the law also applied to private entities did not affect the court's finding that the new laws constituted a "program" for subvention purposes. The court held that the law was not a law of general application, even though it applied to all public and private firefighting entities alike, because "the orders do not apply generally to all residents and entities in the State *but only to those involved in fire fighting*."[23]

[18] Water Code §§ 10608.12, subd. (a), 10853; 23 C.C.R. § 597.1, subd. (a); See also Exhibit A to Decl. of Dustin C. Cooper in Support of Claimants' Rebuttal dated August 7, 2013 (Document 67).

[19] DWR Letter at p. 2.

[20] *Id.* at 3.

[21] *Carmel Valley Fire Protection Dist. v. State of California* (1987) 190 Cal.App.3d 521.

[22] *Id.* at pp. 537-538 (emphasis added).

[23] *Id.* at p. 538 (emphasis added).

Here, the new mandates "impose unique requirements on local governments"[24] because the provision of water service "is overwhelmingly engaged in by local agencies."[25] The new mandates "do not apply generally to all residents and entities in the State but only to those involved in" providing water service.[26] Because the statutes and regulations at issue here also fall within the second definition of "program," and impose unique requirements on local government, the new mandates are an appropriate subject for these consolidated test claims and Claimants are entitled to reimbursement.[27]

III. DWR's Arguments, If Accepted, Would Preclude Constitutional Subvention For Practically All Potential Claimants.

According to DWR, a new state mandate imposed on local governments would only be reimbursable if the newly mandated activity is "uniquely governmental in nature" and an "exclusively governmental function."[28] This would preclude subvention for most claimants. The People of California did not intend Section 6 to be limited in such a severe manner when they passed the Constitutional amendment creating the subvention requirement.[29] Nor have the courts interpreted this Constitutional provision in such a limited manner.[30]

Such an interpretation would remove entire classes of claimants from eligibility for subvention when, in many cases, the Commission has already determined them to be eligible. For instance, DWR's interpretation would exclude schools and community college districts from subvention because there are private schools and colleges in the state that perform the same "functions" as the public institutions. The Commission has already decided this issue in favor if their eligibility,[31] as have the courts[32]. Also eliminated from eligibility for subvention would be the hundreds of local governmental agencies governed by publicly elected boards that provide water, sewer, refuse collection, energy, and other services, because there are some private entities that perform those functions as well. Even public animal shelters would be deemed

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[24] *County of Los Angeles, supra,* 43 Cal.3d at p. 56.

[25] *Carmel Valley Fire Protection Dist., supra,* 190 Cal.App.3d at p. 538.

[26] *Id.*

[27] *Id.* at p. 537.

[28] DWR Letter at pp. 5, 7.

[29] See California Ballot Pamphlet, Special Statewide Election, November 6, 1979, at pp. 16-22 (included as Exhibit D to Claimants' Response to Request for Additional Information 10-TC-12 and 12-TC-01, filed September 23, 2013).

[30] See, e.g., *Carmel Valley, supra,* 190 Cal.App.3d at pp. 537-538.

[31] E.g., 00-TC-05 at p. 8.

[32] E.g., *Long Beach USD v. State of California* (1990) 225 Cal.App.3d 155, 172, citing *Carmel Valley, supra,* 190 Cal.App.3d at p. 537.

ineligible for subvention due to the existence of private shelters, when the Commission has already determined animal shelters to be eligible.[33]

IV. Conclusion.

For the reasons explained above, the Commission should not accept DWR's proffered arguments. Instead, the Commission should find that the Claimants in the consolidated test claims are eligible and entitled to reimbursement for the new state mandates at issue in these proceedings.

Respectfully submitted,

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[33] See 98-TC-11.

DECLARATION OF SERVICE BY EMAIL

I, the undersigned, declare as follows:

I am a resident of the County of Yolo and I am over the age of 18 years, and not a party to the within action. My place of employment is 980 Ninth Street, Suite 300, Sacramento, California 95814.

On November 13, 2014, I served the:

Claimant Comments
Water Conservation, 10-TC-12 and 12-TC-01
Water Conservation Act of 2009 et al.
South Feather Water and Power Agency, Paradise Irrigation District, Richvale Irrigation District, Biggs-West Gridley Water District, Oakdale Irrigation District, and Glenn-Colusa Irrigation District, Claimants

By making it available on the Commission's website and providing notice of how to locate it to the email addresses provided on the attached mailing list.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct, and that this declaration was executed on November 13, 2014 at Sacramento, California.

Jason Hone
Commission on State Mandates
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COMMISSION ON STATE MANDATES

Mailing List

Last Updated: 10/24/14

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Matter: Water Conservation

Claimants: Glenn-Colusa Irrigation District
Oakdale Irrigation District
Paradise Irrigation District
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TO ALL PARTIES, INTERESTED PARTIES, AND INTERESTED PERSONS:

Each commission mailing list is continuously updated as requests are received to include or remove any party or person on the mailing list. A current mailing list is provided with commission correspondence, and a copy of the current mailing list is available upon request at any time. Except as provided otherwise by commission rule, when a party or interested party files any written material with the commission concerning a claim, it shall simultaneously serve a copy of the written material on the parties and interested parties to the claim identified on the mailing list provided by the commission. (Cal. Code Regs., tit. 2, § 1181.3.)

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SECTION 6. DECLARATIONS

Test Claim Title: SWRCB Water Supply Permit Amendment (2017PA-SCHOOLS) for PWS No. 3710020

Claimant: City of San Diego

SUPPLEMENTAL DECLARATION OF RAYMOND C. PALMUCCI IN SUPPORT OF TEST CLAIM FILED BY THE CITY OF SAN DIEGO

I, RAYMOND C. PALMUCCI, hereby declare as follows:

1. I am a Deputy City Attorney for the City of San Diego and I am the claimant representative for both the City and the Public Utilities Department for purposes of the Test Claim filed with the Commission on State Mandates.

2. I have personal knowledge of the facts contained in this declaration, and if called upon as a witness, I could and would competently testify to the truthfulness of these facts as set forth in this declaration.

3. San Diego Municipal Code § 22.4101 *et seq*, provides for a Disclosure Practices Working Group (DPWG). The purpose and intent of the DPWG is to ensure the compliance by the City (including the City Council, City officers, and staff) with federal and state securities laws and to promote the highest standards of accuracy in disclosures relating to securities issued by the City or by its related entities.

4. San Diego Municipal Code § 22.4103 provides that the Disclosure Practices Working Group consists of the Chief Operating Officer or designee; the City Attorney or designee; the Chief Financial Officer; the City Director of Debt Management; the Deputy City Attorney for Finance and Disclosure; and the City's outside disclosure counsel.

5. I have been assigned, as part of my legal duties, to be a City Attorney designee for purposes of review and approval of information pertaining to the City's Water Fund. As part of my official business duties for the City's Public Utilities Department, I maintain custody of the

official information related to the City's Water System. I am required to review and verify the information and statements in the City of San Diego's Official Statements.

4. The 2018 Official Statement for the City's recent bond offering, entitled "$243,180,000 Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Bonds, Series 2018A Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund" contains factual and trustworthy information based on my personal knowledge and that of other City officials, and it is my responsibility to verify the information in the 2018 Official Statement as a City Attorney designee.

5. The proceeds of the 2018 Bonds will be used to (a) finance capital improvements to the Water System of The City of San Diego, (b) pay all of the outstanding principal of the Subordinated Water Revenue Commercial Paper Notes, Series A (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) and the Subordinated Water Revenue Commercial Paper Notes, Series B (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) of the Authority, which were issued to initially finance a portion of the capital improvements to the Water System, and (c) pay the costs of issuance incurred in connection with the issuance of the 2018 Bonds.

6. The 2018 Bonds are limited obligations of the Authority secured by Subordinated Revenues consisting primarily of 2018 Subordinated Installment Payments to be made by the

City to the San Diego Facilities and Equipment Leasing Corporation (the "Corporation") under the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009 (the "Original Master Installment Purchase Agreement"), as amended and supplemented, including as supplemented by the 2018 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of December 1, 2018 (the "2018 Supplement" and, together with the Original Master Installment Purchase Agreement as previously amended and supplemented, the "Master Installment Purchase Agreement"), each by and between the City and the Corporation, and other assets pledged therefor under the Indenture.

7. The 2018 Subordinated Installment Payments are payable solely from Net System Revenues, on a basis that is subordinate to the right of payment by the City of its Senior Obligations under the Master Installment Purchase Agreement and on parity with the right of payment by the City of its other Subordinated Obligations under the Master Installment Purchase Agreement. Net System Revenues for any Fiscal Year are the System Revenues for such Fiscal Year less the Maintenance and Operation Costs of the Water System for such Fiscal Year. System Revenues are all income, rents, rates, fees, charges, and other moneys derived from the ownership and operation of the Water System.

8. The 2018 Official Statement was made in the regular course of City business, in conjunction with obtaining financing of City water projects. It was prepared for and made public at or near the time of the 2018 Bond Offering.

SECTION 6. DECLARATIONS

Test Claim Title: SWRCB Water Supply Permit Amendment (2017PA-SCHOOLS) for PWS No. 3710020

Claimant: City of San Diego

SUPPLEMENTAL DECLARATION OF RAYMOND C. PALMUCCI IN SUPPORT OF TEST CLAIM FILED BY THE CITY OF SAN DIEGO

9. My legal duties involve ensuring the information in the 2018 Official Statement concerning the City's Water System is accurate, true and correct. Materially false or misleading statements or omissions in an Official Statement are subject to administrative penalties under the Securities Exchange Act of 1934.

10. The 2018 Official Statement undergoes multiple levels of legal and factual review by independent bond counsel, and is certified by the Mayor and City Attorney. The 2018 Official Statement is trustworthy based on the sources of information and method of preparation; and the copy provided with the City's comments on the Draft Proposed Decision is a true and correct copy of the records as kept at the City's place of business.

I declare under penalty of perjury, under the laws of the State of California, that the foregoing is true and correct. Executed this 10th day of January 2019 in San Diego, California.

Raymond C. Palmucci
Deputy City Attorney

SECTION 6. DECLARATIONS

Test Claim Title: SWRCB Water Supply Permit Amendment (2017PA-SCHOOLS) for PWS No. 3710020

Claimant: City of San Diego

SUPPLEMENTAL DECLARATION OF DOUG CAMPBELL IN SUPPORT OF TEST CLAIM FILED BY THE CITY OF SAN DIEGO

I, Doug Campbell, declare as follows:

1. I am a Senior Chemist of the Public Utilities Department (PUD) that oversees the Department's Water Quality Chemistry Services section for the City of San Diego (City). In that capacity, I have direct oversight of the City's implementation of monitoring requirements contained in the City's Domestic Water Supply Permit (the Permit) and in the Permit Amendment No. 2017PA-SCHOOLS (Permit Amendment), as adopted by the California State Water Resources Control Board (SWRCB).

2. I instructed and supervised each of the staff members who were required to perform this work as stated in the Test Claim Documents and this Declaration, and have personal knowledge of the work that was required by each of them at my direction.

3. I have reviewed sections of the Test Claim filing as set forth herein and am familiar with those provisions. I am also familiar with the pertinent sections of Permit Amendment No. 2017PA-SCHOOLS, which was issued by the SWRCB on January 17, 2017.

5. I have personal knowledge of the activities required to comply with the Permit and the Permit Amendment.

6. I have personal knowledge of the facts contained in this declaration, and if called upon as a witness, I could and would competently testify to the truthfulness of these facts as set forth in this declaration.

7. The City is on a reduced monitoring program approved by the SWRCB and is only required to test 50 residences every three years under the federal and state lead and copper rules, as the City's past test results have not exceeded action levels at the 90th percentile.

SECTION 6. DECLARATIONS

Test Claim Title: SWRCB Water Supply Permit Amendment (2017PA-SCHOOLS) for PWS No. 3710020

Claimant: City of San Diego

SUPPLEMENTAL DECLARATION OF DOUG CAMPBELL IN SUPPORT OF TEST CLAIM FILED BY THE CITY OF SAN DIEGO

8. The City tested 262 schools from the date of the Permit Amendment until January 7, 2019. Elevated lead levels with values greater than 15 ppb were discovered in five fixtures on four school sites.

9. Three of the four school sites took remedial action to replace the fixtures. When the City retested after the schools took remedial action, lead levels were Not Detected or below the 15-ppb action level. One school did not perform any remediation, as it is no longer located in the facility.

10. All remediations conducted by the schools consisted of replacement of fixtures or drinking fountains, or replacement of plumbing lines internal to the schools themselves. In all instances where remediation was performed, follow-up sampling has shown that the source of lead was removed. The City has not identified any problems with City water through the Permit Amendment.

11. There are multiple campus sites where two schools are co-located (as identified in the state database). Because each school is eligible for lead testing, these schools were treated separately and each school was sampled individually, even though both schools are located on the same property.

I declare under penalty of perjury, under the laws of the State of California, that the foregoing is true and correct. Executed this 9th day of January 2019 in San Diego, California.

Doug Campbell, Senior Chemist
Public Utilities Department

1979

Voter Information Guide for 1979, Special Election

CALIFORNIA BALLOT PAMPHLET

SPECIAL STATEWIDE ELECTION NOVEMBER 6, 1979

COMPILED BY MARCH FONG EU • SECRETARY OF STATE
ANALYSES BY WILLIAM G. HAMM • LEGISLATIVE ANALYST

AVISO

Una traducción al español de este folleto de la balota puede obtenerse si completa y nos envía la tarjeta con porte pagado que encontrará entre las páginas 12 y 13. Escriba su nombre y dirección en la tarjeta en LETRA DE MOLDE y regrésela a lo menos el día 30 de octubre de 1979.

NOTICE

A Spanish translation of this ballot pamphlet may be obtained by completing and returning the postage-paid card which you will find between pages 12 and 13. Please PRINT your name and mailing address on the card and return it no later than October 30, 1979.

Secretary of State

SACRAMENTO 95814

Estimados Californianos:

Esta es la versión en inglés del folleto de la balota de California para la Elección Especial Estatal del 6 de noviembre de 1979. Contiene el título de la balota, un breve resumen, el análisis del Analista Legislativo, los razonamientos a favor y en contra y las refutaciones y el texto completo de cada proposición. También contiene el voto legislativo depositado a favor y en contra de todo proyecto de ley propuesto por la legislatura.

Con objeto de reducir los pasos innecesarios asociados con la distribución de este folleto y para evitar demoras indebidas en el tiempo necesario para que usted lo reciba, la oficina de la Secretaria del Estado los esta enviando directamente a los votantes registrados 60 días antes de la elección. Los funcionarios electorales de los condados enviarán los folletos a votantes registrados entre los 59 y los 29 días antes de la elección.

Si usted desea recibir un folleto de la balota en español, simplemente complete y envíe la tarjeta adjunta entre las páginas 12 y 13 de este folleto. No se necesitan estampillas.

Lea cuidadosamente cada uno de los proyectos de ley y la información respecto a los mismos contenidos en este folleto. Las proposiciones legislativas y las iniciativas patrocinadas por ciudadanos estan diseñadas específicamente para darle a usted, el votante, la oportunidad de influir las leyes que nos gobiernan a todos.

Aproveche esta oportunidad y vote el 6 de noviembre de 1979.

March Fong Eu

MARCH FONG EU
Secretaria del Estado

Secretary of State

SACRAMENTO 95814

Dear Californians:

This is the English version of the California ballot pamphlet for the November 6, 1979, Special Statewide Election. It contains the ballot title, short summary, the Legislative Analyst's analysis, the pro and con arguments and rebuttals, and the complete text of each proposition. It also contains the legislative vote cast for and against any measure proposed by the Legislature.

To reduce unnecessary steps associated with the distribution of this pamphlet and to avoid any undue delays in the amount of time it takes to reach you, pamphlets are being mailed directly by the Secretary of State's office to voters registered 60 days before the election. County election officials will mail pamphlets to voters registered between the 59th and 29th days before the election.

If you wish to receive a Spanish language ballot pamphlet, simply fill out and mail the card enclosed between pages 12 and 13 of this pamphlet. No postage is needed.

Read carefully each of the measures and the information about them contained in this pamphlet. Legislative propositions and citizen-sponsored initiatives are designed specifically to give you, the electorate, the opportunity to influence the laws which regulate us all.

Take advantage of this opportunity and vote on November 6, 1979.

March Fong Eu

MARCH FONG EU
Secretary of State

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1 School Assignment and Transportation of Pupils

Official Title and Summary Prepared by the Attorney General

SCHOOL ASSIGNMENT AND TRANSPORTATION OF PUPILS. LEGISLATIVE CONSTITUTIONAL AMENDMENT. Amends Section 7(a) of Article I of the Constitution to provide that nothing in the California Constitution imposes upon the State of California or any public entity, board, or official any obligations or responsibilities which exceed those imposed by the United States Constitution with respect to the use of pupil school assignment or transportation. Provides for modification of existing judgments, decrees, writs or other court orders to conform to the provisions of this subdivision. Provides that governing boards of school districts may voluntarily continue or commence a school integration plan. Financial impact: Indeterminable. Potential savings if school districts elect to reduce or eliminate pupil transportation or assignment programs as a result of this measure.

FINAL VOTE CAST BY LEGISLATURE ON SCA 2 (PROPOSITION 1)

Assembly—Ayes, 62 Noes, 17 Senate—Ayes, 28 Noes, 6

Analysis by Legislative Analyst

Background:

The U.S. Supreme Court has interpreted the U.S. Constitution to require public school desegregation only when the segregation was caused by government action with a discriminatory intent. The California Supreme Court has interpreted the State Constitution to require that public school segregation be alleviated regardless of what caused the segregation. Thus, the State Constitution now requires public school desegregation in cases where the U.S. Constitution does not.

Currently, there are many California school districts which are providing pupil transportation and/or assigning pupils to schools outside of their immediate neighborhoods in order to alleviate segregation. Other school districts are currently involved in court actions concerning desegregation, and still others could become involved in court actions at some time in the future.

Some school districts have started desegregation plans because of federal court orders or because of agreements with the U.S. Office of Civil Rights. Other school districts are carrying out desegregation plans because of California court decisions. A third group of school districts is implementing desegregation plans on a voluntary basis.

Proposal:

This proposition would limit the power of California courts to require desegregation. Specifically, desegregation could be required only in cases where the U.S. Constitution would require it. As a result, the proposition could affect 13 school districts which now have desegregation plans ordered or approved by a California court plus other school districts that are involved or could become involved in desegregation actions before California courts.

This measure has four major provisions. First, it would require California courts to follow applicable federal court decisions when deciding if changes in pupil school assignment or pupil transportation are required to alleviate segregation. Consequently, if a California school district is found to have segregation for reasons other than government action with a discriminatory intent, the proposition would prohibit a California court from ordering the school district to start a pupil school assignment or pupil transportation desegregation plan.

Second, the proposition would make past California court decisions requiring desegregation through changes in pupil school assignment or pupil transportation subject to court review using the same standards applicable to the federal courts. Any person could request a court to review its prior decision that resulted in a pupil school assignment or pupil transportation plan. The court would then have to reconsider its prior decision, and if necessary issue a new ruling based upon the California Constitution as amended by this proposition.

Third, the proposition would require California courts that are asked to review their prior decisions to give first priority to such a review relative to other civil cases.

Fourth, public schools would be allowed to continue current desegregation plans and start new desegregation plans on a voluntary basis.

Fiscal Effect:

The proposition would have an unknown fiscal effect. It would not require any school district to stop or reduce current busing programs. Thus, it would not necessarily affect school district costs. However, because review of current court-ordered busing programs, as permitted by the proposition, might result in some of these programs being modified to require less busing, the proposition could result in significant sav-

ings to the state and school districts. The savings would only occur, however, if school districts chose to eliminate or reduce their current busing programs based on new court decisions. Additional state and local costs would result from court review of existing court decisions, and these costs would offset some portion of any savings that might occur due to decreased busing.

Therefore, the net fiscal impact of this measure could range from a net increase in state and local government costs (if no districts chose to reduce or eliminate pupil transportation programs) to significant net savings (if many districts reduce or eliminate these programs).

Text of Proposed Law

This amendment proposed by Senate Constitutional Amendment No. 2 (Statutes of 1979, Resolution Chapter 18) expressly amends an existing section of the Constitution; therefore, new provisions proposed to be inserted or added are printed in *italic type* to indicate that they are new.

PROPOSED AMENDMENT TO ARTICLE I

Subdivision (a) of Section 7 is amended to read:

(a) A person may not be deprived of life, liberty, or property without due process of law or denied equal protection of the laws; *provided, that nothing contained herein or elsewhere in this Constitution imposes upon the State of California or any public entity, board, or official any obligations or responsibilities which exceed those imposed by the Equal Protection Clause of the 14th Amendment to the United States Constitution with respect to the use of pupil school assignment or pupil transportation. In enforcing this subdivision or any other provision of this Constitution, no court of this state may impose upon the State of California or any public entity, board, or official any obligation or responsibility with respect to the use of pupil school assignment or pupil transportation, (1) except to remedy a specific violation by such party that would also constitute a violation of the Equal Protection Clause of the 14th Amendment to the United States Constitution, and (2) unless a federal court would be permitted under federal decisional law to impose that obligation or responsibility upon such party to remedy the specific violation of the Equal Protection Clause of the 14th Amendment of the United States Constitution.*

Except as may be precluded by the Constitution of the United States, every existing judgment, decree, writ, or other order of a court of this state, whenever rendered, which includes provisions regarding pupil school assignment or pupil transportation, or which requires a plan including any such provisions shall, upon application to a court having jurisdiction by any interested person, be modified to conform to the provisions of this subdivision as amended, as applied to the facts which exist at the time of such modification.

In all actions or proceedings arising under or seeking application of the amendments to this subdivision proposed by the Legislature at its 1979–80 Regular Session, all courts, wherein such actions or proceedings are or may hereafter be pending, shall give such actions or proceedings first precedence over all other civil actions therein.

Nothing herein shall prohibit the governing board of a school district from voluntarily continuing or commencing a school integration plan after the effective date of this subdivision as amended.

In amending this subdivision, the Legislature and people of the State of California find and declare that this amendment is necessary to serve compelling public interests, including those of making the most effective use of the limited financial resources now and prospectively available to support public education, maximizing the educational opportunities and protecting the health and safety of all public school pupils, enhancing the ability of parents to participate in the educational process, preserving harmony and tranquility in this state and its public schools, preventing the waste of scarce fuel resources, and protecting the environment.

1 School Assignment and Transportation of Pupils

Arguments in Favor of Proposition 1

CURRENTLY, THE CALIFORNIA CONSTITUTION CAN BE INTERPRETED TO REQUIRE COMPULSORY BUSING, INCLUDING METROPOLITAN COMPULSORY BUSING, IN CIRCUMSTANCES WHERE BUSING WOULD *NOT* BE REQUIRED BY THE CONSTITUTION OF THE UNITED STATES OF AMERICA.

THE INTENT AND PURPOSE OF MY AMENDMENT IS TO PROHIBIT ANY CALIFORNIA JUDGE FROM ORDERING MANDATORY BUSING UNLESS THE BUSING IS REQUIRED BY FEDERAL LAW. This amendment is based on the conclusion that forced busing is *not* a useful tool in achieving desegregation because its financial and educational costs render it counterproductive.

COURT-ORDERED COMPULSORY BUSING HAS BECOME PART OF THE PROBLEM RATHER THAN PART OF THE SOLUTION. *The racial tension and strife of compulsory busing is counterproductive* to our goal of maximum racial harmony, and the furor over compulsory busing stands in the way of community support for voluntary integration. By adopting this amendment, we will allow our courts and local school officials to turn to other *more appropriate solutions.*

ON TUESDAY, NOVEMBER 6, PLEASE JOIN ME IN DOING EVERYTHING THAT WE LEGALLY CAN TO HELP STOP COMPULSORY BUSING. PLEASE VOTE *YES* ON PROPOSITION 1.

ALAN ROBBINS
State Senator, 20th District

One of the great myths of our society is that blacks and other minority children can only receive an effective and equal education through the use of forced busing programs. This is simply *not* true. The use of forced busing hinders voluntary integration participation and other steps which could improve the quality of education available in our schools.

AS MAYOR TOM BRADLEY HAS SAID, "MOST PARENTS, WHATEVER THEIR COLOR, WHATEVER THEIR BACKGROUND, WHEREVER THEY LIVE, DON'T WANT THEIR KIDS TRANSPORTED BACK AND FORTH ACROSS THE CITY."

Norman Cousins, the respected editor of *Saturday Review* and a strong supporter of integration, said a few years ago:

"The evidence is substantial that busing is leading away from integration and not toward it; that it has not significantly improved the quality of education accessible to blacks . . . that it has resulted in the exodus of white students to private schools inside the city or to public schools in the comparatively affluent suburbs beyond the economic means of blacks; and finally, that it has not contributed to racial harmony but has produced deep fissures within American society."

As a black parent and minister who cares about children, I urge you to help end forced school busing in California by voting *YES on the Robbins Amendment.*

REV. W. C. JACKSON
Pastor, Beth Ezel Baptist Church, Watts

As the plaintiff in *Serrano v. Priest,* I have worked to insure equal educational opportunity for all California children. The excessive use of court-ordered forced busing will not guarantee this result.

FORCED BUSING TO ACHIEVE INTEGRATION IS A SHAM. TO FORCE A CHILD TO SPEND THREE HOURS ON A BUS AND FIVE HOURS IN A CLASS DOES NOTHING MORE THAN CHANGE THE COLOR BALANCE OF A FEW SCHOOLS FOR A FEW HOURS.

Children would be better off if we spent these dollars on teachers and buildings rather than wasting it on compulsory busing.

ON NOVEMBER 6, I WILL CAST MY VOTE IN FAVOR OF EQUAL, QUALITY EDUCATION—I WILL VOTE *YES* ON PROPOSITION 1.

JOHN SERRANO, JR.
Plaintiff, Serrano v. Priest

Rebuttal to Arguments in Favor of Proposition 1

1. Busing will NOT come to a halt if Proposition 1 is passed.
2. Proposition 1 will NOT prevent metropolitan integration.
3. Proposition 1 will NOT release money for classroom use in Los Angeles.

Proposition 1's proponents would have you believe that the issue is busing, that amending the California Constitution will stop so-called compulsory busing, and that busing cannot be required under the U.S. Constitution.

Proponents hold up the specter of metropolitan busing, implying that Proposition 1 would block such a plan in Los Angeles and other California metropolitan areas.

Just this year the U.S. Supreme Court approved sweeping compulsory desegregation plans in which federal courts required metropolitan busing. Thus, federal standards may impose broader rather than narrower duties to desegregate.

Proponents complain of the excessive cost of busing under the existing Los Angeles integration order. But, in fact, under a metropolitan plan, busing would cost less and children would spend less time traveling to and from school than some children spend under the current plan.

Since 1954, selfish and shortsighted persons who were responsible for the building of schools and housing in communities throughout California have refused to plan and implement long-term solutions which could have effected integration WITHOUT busing.

Until thoughtful planning for school locations and metropolitan zoning and intelligent housing programs are implemented, busing is one of the only tools we have to provide equal educational opportunity.

WE URGE YOU TO VOTE NO ON PROPOSITION 1.

DIANE E. WATSON
State Senator, 30th District

TERESA P. HUGHES
Member of the Assembly, 47th District

SUSAN F. RICE
President
League of Women Voters of California

Arguments printed on this page are the opinions of the authors and have not been checked for accuracy by any official agency.

Argument Against Proposition 1

Contrary to the promises made by the Amendment's supporters, neither desegration in Los Angeles, nor the busing used as a tool to achieve it, would come to a halt with the passage of this measure.

In the Los Angeles school integration case, the trial court found—and the State Supreme Court agreed—that the segregation resulted from official acts of the school board. Even if the California Constitution were to be amended to make the so-called Federal standard on desegregation apply in California, *de jure* (i.e.: intentional) segregation would still require a remedy not only in Los Angeles but in other school districts all over the state.

There is good reason to believe that Proposition 1 will ultimately be declared unconstitutional, since its very enactment could be interpreted to be *de jure* (intentional) segregation. The backers of Proposition 1 have made it clear in public statements that it is their intention in seeking this amendment to thwart the court's mandate to desegregate the schools in Los Angeles.

The right of every citizen to equal protection of the law, currently guaranteed by our strong California Constitution, is effectively diluted by Proposition 1. The Tenth Amendment to the U.S. Constitution expressly reserves to the States the power to establish greater Constitutional protections for their citizens than those provided by the U.S. Constitution. Proposition 1 drastically weakens the California Constitution's protection of minority students and their right to equal educational opportunity, consigning a generation of minority children to segregated inferior schools.

The campaign in favor of this amendment has played on fears and stirred up racial hostilities. If enacted, it will be a signal to all citizens of California that the state is on the side of prejudice, not equality. By making it possible to reopen cases in districts presently under California court order, the amendment would further generate disruption and turmoil where progress is being made toward desegregation.

Quality education should be available to all the students of our state; it cannot be achieved in a segregated setting. School districts should be encouraged and committed to making education a realistic experience, as we live in an integrated society. But passage of this amendment effectively prevents our school system from preparing our children to function in the real world.

In short, the enactment of this proposition will not deliver what its proponents have promised: the blocking of court-ordered school desegregation in Los Angeles. It will make the state a party to discrimination; it will increase racial conflict; it will restrict educational opportunities for school children; it will touch off a series of costly court battles; and it will set a precedent of altering the California Constitution for political gain.

We urge voters to vote "NO" on Proposition 1.

DIANE E. WATSON
State Senator, 30th District

TERESA P. HUGHES
Member of the Assembly, 47th District

SUSAN F. RICE
President
League of Women Voters of California

Rebuttal to Argument Against Proposition 1

THE ROBBINS AMENDMENT HAS BEEN VERY CAREFULLY DRAFTED TO WITHSTAND ANY CONSTITUTIONAL CHALLENGE AND TO STOP COURT-ORDERED FORCED BUSING IN CALIFORNIA. That is what it is designed to do, and *that is all it will do.*

The opponents of Proposition 1 argue that it will cause segregation and reduce the quality of our schools. In fact, it will do just the opposite.

The Robbins Amendment will assure quality education for the children of California. IT WILL PUT MONEY WHERE IT IS NEEDED —INTO SCHOOLS, TEACHERS AND BOOKS—NOT INTO BUSES, GAS AND BUS DRIVERS.

Forced busing has *not* eased racial tension, it has *not* stopped discrimination, and it has *not* improved the quality of education. It merely forces large numbers of children to take long daily bus rides.

THE SCOPE OF OUR AMENDMENT IS LIMITED TO THE PROBLEMS CAUSED BY COURT-ORDERED BUSING. It makes no attempt to interfere with the prerogatives of local school districts and does *not* diminish their obligation to provide minority students with equal educational opportunities.

By ending the use of court-ordered forced busing, unless such busing is required by the U.S. Constitution, *Proposition 1 does everything the people of California may legally do to stop court-ordered forced busing* in Los Angeles and in all other California school districts. That is one reason why the California P.T.A. has urged the adoption of this type of amendment.

When you vote on the 6th of November, please vote YES on Proposition 1, the Robbins Amendment, and help end forced busing in California.

ALAN ROBBINS
State Senator, 20th District

REV. W. C. JACKSON
Pastor, Beth Ezel Baptist Church, Watts

JOHN SERRANO, JR.
Plaintiff, Serrano v. Priest

Arguments printed on this page are the opinions of the authors and have not been checked for accuracy by any official agency.

2 Loan Interest Rates

Official Title and Summary Prepared by the Attorney General

LOAN INTEREST RATES. LEGISLATIVE CONSTITUTIONAL AMENDMENT. Amends constitutional limit of 10 percent on loan interest rates. Applies 10 percent rate limit to loans primarily for personal, family or household purposes. For other purposes authorizes interest rate limit to be higher of 10 percent or 5 percent plus rate of interest charged by San Francisco Federal Reserve Bank to member banks 25 days prior to execution of loan contract or making of loan. Continues exemption of specified lending institutions from rate restrictions. Extends exemption to loans made or arranged by licensed real estate brokers when secured by lien on real property. Financial impact: No direct fiscal effect on state or local government.

FINAL VOTE CAST BY LEGISLATURE ON ACA 52 (PROPOSITION 2)

Assembly—Ayes, 73 Noes, 5

Senate—Ayes, 33 Noes, 0

Analysis by Legislative Analyst

Background:

The California Constitution prohibits any lender of money, other than those specifically exempted by the Constitution, from charging interest on any loan at a rate exceeding 10 percent per year. This provision of the Constitution is commonly referred to as the usury law.

The Constitution specifically exempts the following lenders from the usury law: savings and loan associations, state and national banks, industrial loan companies, credit unions, pawnbrokers, personal property brokers and agricultural cooperatives.

Proposal:

This ballot measure would amend the Constitution to make several changes in existing law regarding the level of interest rates that may be charged:

1. Under existing law, loans made or arranged by any person licensed as a real estate broker by the State of California and secured in whole or in part by liens on real property are subject to a 10 percent interest rate ceiling. Such loans commonly are made by mortgage brokers and mortgage bankers. Under this measure such loans would be exempt from the constitutional limitations on interest rates that may be charged.

2. Under existing law, lenders not specifically exempted by the Constitution, such as insurance companies and private individuals, are subject to the 10 percent interest rate ceiling on all of their loans. This measure would retain the 10 percent ceiling on loans made by these lenders if the loans were made for personal, family or household purposes. However, if these loans were made for other purposes, such as the purchase, construction or improvement of real property, or financing business activity, they would become subject to a new ceiling. The new interest rate ceiling on these nonpersonal loans would be the higher of (a) 10 percent per year or (b) the prevailing annual interest rate charged to member banks for moneys advanced by the Federal Reserve Bank of San Francisco, plus 5 percent per year. In June 1979, the interest rate charged by the Federal Reserve Bank was 9½ percent. Thus, the allowable rate on loans made during that month would have been 14½ percent had this measure been in effect.

3. The Legislature would be authorized to exempt any other class of persons from the restrictions on interest rates. Currently, exemptions may only be granted by amending the Constitution, which requires a vote of the people.

4. Under the measure, a loan which is exempt from the provisions of the usury law at the time it is made would continue to be exempt from these provisions even if the loan is sold or transferred to another party. While such a loan generally does not become subject to the limitation on interest rates under existing law, the courts have the authority to review the particular circumstances surrounding the sale or transfer. If the court finds that the transaction violates the intent of existing law limiting the rate of interest that may be charged, it may rule that the loan is subject to the limitation. This ballot measure may restrict the court's authority to make such rulings.

Fiscal Effect:

The proposition would have no direct fiscal effect on state or local governments.

This amendment proposed by Assembly Constitutional Amendment No. 52 (Statutes of 1979, Resolution Chapter 49) expressly amends an existing section of the Constitution; therefore, existing provisions proposed to be deleted are printed in ~~strikeout type~~ and new provisions proposed to be inserted are printed in *italic type* to indicate that they are new.

PROPOSED AMENDMENT TO ARTICLE XV

SECTION 1. The rate of interest upon the loan or forbearance of any money, goods , or things in action, or on accounts after demand, shall be 7 ~~per cent~~ *percent* per annum but it shall be competent for the parties to any loan or forbearance of any money, goods or things in action to contract in writing for a rate of interest ~~not exceeding 10 per cent per annum.~~ :

(1) For any loan or forbearance of any money, goods, or things in action, if the money, goods, or things in action are for use primarily for personal, family, or household purposes, at a rate not exceeding 10 percent per annum; provided, however, that any loan or forbearance of any money, goods or things in action the proceeds of which are used primarily for the purchase, construction or improvement of real property shall not be deemed to be a use primarily for personal, family or household purposes; or

(2) For any loan or forbearance of any money, goods, or things in action for any use other than specified in paragraph (1), at a rate not exceeding the higher of (a) 10 percent per annum or (b) 5 percent per annum plus the rate prevailing on the 25th day of the month preceding the earlier of (i) the date of execution of the contract to make the loan or forbearance, or (ii) the date of making the loan or forbearance established by the Federal Reserve Bank of San Francisco on advances to member banks under Sections 13 and 13a of the Federal Reserve Act as now in effect or hereafter from time to time amended (or if there is no such single determinable rate of advances, the closest counterpart of such rate as shall be designated by the Superintendent of Banks of the State of California unless some other person or agency is delegated such authority by the Legislature).

No person, association, copartnership or corporation shall by charging any fee, bonus, commission, discount or other compensation receive from a borrower more than ~~10 per cent per annum~~ *the interest authorized by this section* upon any loan or forbearance of any money, goods or things in action.

However, none of the above restrictions shall apply to any *obligations of, loans made by, or forbearances of, any* building and loan association as defined in and which is operated under that certain act known as the "Building and Loan Association Act," approved May 5, 1931, as amended, or to any corporation incorporated in the manner prescribed in and operating under that certain act entitled "An act defining industrial loan companies, providing for their incorporation, powers and supervision," approved May 18, 1917, as amended, or any corporation incorporated in the manner prescribed in and operating under that certain act entitled "An act defining credit unions, providing for their incorporation, powers, management and supervision," approved March 31, 1927, as amended or any duly licensed pawnbroker or personal property broker, *or any loans made or arranged by any person licensed as a real estate broker by the State of California and secured in whole or in part by liens on real property,* or any bank as defined in and operating under that certain act known as the "Bank Act," approved March 1, 1909, as amended, or any bank created and operating under and pursuant to any laws of this State or of the United States of America or any nonprofit cooperative association organized under Chapter 1 (commencing with Section 54001) of Division 20 of the Food and Agricultural Code in loaning or advancing money in connection with any activity mentioned in said title or any corporation, association, syndicate, joint stock company, or partnership engaged exclusively in the business of marketing agricultural, horticultural, viticultural, dairy, live stock, poultry and bee products on a cooperative nonprofit basis in loaning or advancing money to the members thereof or in connection with any such business or any corporation securing money or credit from any ~~Federal~~ *federal* intermediate credit bank, organized and existing pursuant to the provisions of an act of Congress entitled "Agricultural Credits Act of 1923," as amended in loaning or advancing credit so secured, *or any other class of persons authorized by statute, or to any successor in interest to any loan or forbearance exempted under this article,* nor shall any such charge of any said exempted classes of persons be considered in any action or for any purpose as increasing or affecting or as connected with the rate of interest hereinbefore fixed. The Legislature may from time to time prescribe the maximum rate per annum of, or provide for the supervision, or the filing of a schedule of, or in any manner fix, regulate or limit, the fees, ~~bonus~~ *bonuses* , commissions, discounts or other compensation which all or any of the said exempted classes of persons may charge or receive from a borrower in connection with any loan or ~~forebearance~~ *forbearance* of any money, goods or things in action.

The rate of interest upon a judgment rendered in any court of this state shall be set by the Legislature at not more than 10 percent per annum. Such rate may be variable and based upon interest rates charged by federal agencies or economic indicators, or both.

In the absence of the setting of such rate by the Legislature, the rate of interest on any judgment rendered in any court of the state shall be 7 percent per annum.

The provisions of this section shall supersede all provisions of this Constitution and laws enacted thereunder in conflict therewith.

2 Loan Interest Rates

Argument in Favor of Proposition 2

In our society today, every family, individual, and employer faces an occasional need for money.

Because sometimes there are problems in securing that money, and some of those problems are actually *caused* by outdated laws adopted in totally different circumstances, Proposition 2 attempts to eliminate *one* problem area.

The Usury Law of California, adopted in 1934 (during the Depression), limited the price which many lenders could charge for the use of money to 10 percent. Unfortunately, inflation and other factors have made that limit unrealistic.

Because 10 percent is not enough today, many lenders no longer loan money in California (although others who are *now* exempt from the Usury Law still do). For example, mortgage bankers, who last year provided $13 billion for housing loans in California, are limited to a 10 percent rate and in 1979 have practically abandoned providing conventional mortgage loans.

This *shortage* of money is curtailing the building of new homes, apartments, stores, and factories to provide needed new jobs. Because this reduces competition among lenders, it actually forces interest *up* on money from lenders now exempt from the Usury Law.

Now, it might *seem* good to be able to have a law which limited the price of a loaf of bread to 10 cents; but, if we had such a law, there would be no bread or only black market bread. We are approaching that stage on the availability of *extra* money—for a family to buy a home, an employer to buy a new factory, tools, a store, or some other job-creating opportunity.

Proposition 2 deals with that problem in realistic and *controlled* circumstances.

It is complex and technical because both the law and the money market are complex and technical. Proposition 2 is explained in the Legislative Analyst's analysis in this pamphlet with text of the changes.

An important fact is that this constitutional provision *retains* present provisions enabling a control by law on "the maximum rate per annum" and on fees or other compensation—a vital control against abuse. Proposition 2 removes the arbitrary, inflexible, and unrealistic *constitutional* limits on nonconsumer loans and on exemptions which have severely limited the flow of money to California to buy homes, create job opportunities, and for other purposes.

Cheap money is no good if you can't get it when you need it. In that case, cheap money is no money.

In the last few years, state after state has found it necessary to change its usury law *for* the people in those states. Today, in today's world, California must change too *for* the people of California.

Proposition 2 is endorsed by labor, business, civic, and governmental leaders who have studied this issue and recognize the need. No group and no individual appeared before the legislative committees to oppose this measure, which passed the Senate 33-0 and the Assembly 73-5.

Because sometimes we all need money, we need to remove outdated limitations on the availability of that money. Vote "YES" on Proposition 2.

WALTER M. INGALLS
Member of the Assembly, 68th District

WILLIAM CAMPBELL
State Senator, 33rd District
Senate Minority Floor Leader

No rebuttal to argument in favor of Proposition 2 was submitted.

Argument printed on this page is the opinion of the authors and has not been checked for accuracy by any official agency.

Argument Against Proposition 2

Proposition 2 would weaken California's usury laws by boosting interest rates on certain loans above the current 10% maximum. Eroding these laws would be a misstep in the direction of higher costs and tighter money.

In both the primary and general elections in 1976, the voters clearly said NO to similar ballot proposals which would have increased interest rates by changing the portion of the California Constitution that has protected consumers for more than 40 years. I ask you to vote NO once again.

Proposition 2 would boost interest rates for other than consumer loans above the current 10% maximum. These maximum interest rates would be tied to the prevailing discount rate or the interest rate which the Federal Reserve Bank charges member banks. Thus, if this measure had been law in July 1979 when the discount rate was at an all-time high of 9½%, the interest rate charged by a nonexempt lender could now be 14½%.

If higher interest rates can be charged on loans to businesses and corporations than can be charged for consumer loans, then obviously there will be a greater incentive to loan more money to corporations. This will take money away from the consumer loan market and could virtually dry it up. Consumer loans will be harder and harder to get.

Proposition 2, contrary to what supporters say, could affect consumer loans. Although loans used primarily for personal, family, or household purposes would be exempt, you could be charged these higher interest rates if under half of the money borrowed is to be used for household needs and over half for some other purpose.

We need our consumer protection laws. Let's keep California's usury laws intact. Let's say NO to higher interest rates. Vote NO on Proposition 2.

HERSCHEL ROSENTHAL
Member of the Assembly, 45th District

Rebuttal to Argument Against Proposition 2

Opponents say that we should deny businesses and corporations the opportunity to pay higher interest rates—a primary purpose of Proposition 2.

Make no mistake; business does not want to pay a penny more in interest than it must—and will not. But, business needs money to build housing, factories, stores, and offices and develop farms and energy sources so that they can create jobs and homes for our growing population.

And today, not enough money is available because of the outdated restrictions of our interest laws applicable to business or nonconsumer loans. California business needs a change to compete fairly for dollars.

Proposition 2 will have essentially no effect on loans for personal, family, or household purposes—such loans will remain subject to the 10 percent interest limit and, in many cases, are *already* and have always been exempt from constitutional control. Our consumer protection laws will remain essentially unchanged and as strong as they are today.

Conditions today are very different than they were even in 1976, when the voters last examined this issue; and are certainly different than they were in 1934, when this provision was originally written.

We cannot go back to the 10¢ loaf of bread. In realism, California must join other states in making money available for all its citizens.

WALTER M. INGALLS
Member of the Assembly, 68th District

WILLIAM CAMPBELL
State Senator, 33rd District
Senate Minority Floor Leader

3 Property Taxation — Veterans' Exemption

Official Title and Summary Prepared by the Attorney General

PROPERTY TAXATION — VETERANS' EXEMPTION. LEGISLATIVE CONSTITUTIONAL AMENDMENT. Adds Section 3.5 to Article XIII of the Constitution to require that, in any year in which the assessment ratio is changed, the Legislature shall adjust the valuation of assessable property of eligible veterans, unmarried spouses of deceased veterans, and parents of deceased veterans to maintain the same proportionate values of such property. Financial impact: No effect on the amount of property taxes levied. No effect on tax liability of taxpayers claiming the veterans' exemption. Minor initial costs to local government.

FINAL VOTE CAST BY LEGISLATURE ON SCA 60 (PROPOSITION 3)

Assembly—Ayes, 76 Noes, 1

Senate—Ayes, 35 Noes, 0

Analysis by Legislative Analyst

Background:

The California Constitution provides that all property subject to property taxation shall be assessed for property tax purposes at the same percentage of full value. The Legislature, however, may determine what specific percentage of "full value," commonly referred to as the assessment ratio, is to be used by assessors. Existing law requires county assessors to assess property at 25 percent of full value. Thus, a property with a full value of $80,000 would be assessed for property tax purposes at $20,000.

The California Constitution also provides for the exemption of certain types of property from property taxation. The veterans' exemption excludes from property taxation $1,000 of the *assessed* value of taxable property owned by a veteran of the armed services, the unmarried spouse of a deceased veteran, or the parent of a deceased veteran. Eligible persons must own property valued at less than $5,000 in the case of single persons, and $10,000 in the case of married persons, in order to qualify for the exemption. These property value limits have been interpreted by the California courts to be based on the *assessed* value of taxable property and the *full* value of all other property.

Proposal:

Passage of this ballot proposition would cause legislation enacted in 1978 to go into effect. This legislation—Chapter 1207, Statutes of 1978—would change the assessment ratio from 25 percent of full value to 100 percent of full value, beginning with the 1981–82 tax year. It would also make a number of technical changes in various provisions of law to make them consistent with the change in the assessment ratio. Chapter 1207 contains a provision specifying that it will not take effect until this ballot proposition is approved by the voters.

This ballot proposition would also require the Legislature to adjust the amount of the veterans' exemption, which currently is $1,000 of assessed value, to reflect any changes made by the Legislature in the assessment ratio. Chapter 1207 increases this ratio from 25 percent to 100 percent, and requires that the amount of the veterans' exemption be increased from $1,000 to $4,000 of assessed value.

Passage of this ballot proposition would also cause legislation enacted in July 1979 to go into effect. This legislation—Chapter 260, Statutes of 1979—would provide that the property value limit used in determining eligibility for the veterans' exemption ($5,000 in the case of a single person and $10,000 in the case of married persons) is to be increased to reflect any increase in the value of a claimant's property resulting from the change in the assessment ratio.

Fiscal Effect:

The change in the assessment ratio from 25 percent to 100 percent would have no effect on the amount of property taxes levied or the amount of value exempted by current property tax exemptions. The proposition would require certain state and local agencies to make adjustments in all computations which use assessed value as a factor. Most of these changes would affect data processing procedures used by county auditors and assessors. The cost of these adjustments statewide is estimated to be relatively minor. Because these local costs would result from a constitutional amendment approved by the voters, they would not be reimbursed by the state.

The change in the veterans' exemption would have no effect on the tax liability of any taxpayer claiming the veterans' exemption.

Property Taxation — Veterans' Exemption 3

Argument in Favor of Proposition 3

Proposition 3 is concerned with the method of stating property taxes on your property tax bill. *Its passage would neither raise nor lower property taxes but would make it easier for you to understand how your taxes are computed.*

For many years, tax assessors have used a 25% assessment ratio in computing property taxes. If your house is valued at $80,000 for property tax purposes, the assessor multiplies that amount by 25% for an assessed value of $20,000. The tax collector then divides the assessed value by 100, and multiplies it by the county tax rate per $100 of assessed value to yield the amount of tax due. If you have never understood the computation of your property tax when you paid your bill, it was because of this confusing system.

Passage of Proposition 3 will eliminate use of the 25% assessment ratio and the rate per $100. Instead, the tax rate will be stated as a simple percentage of the assessed value. Property taxes on an $80,000 house will, under the 1% limitation of Proposition 13, be stated as 1% of $80,000 (plus the addition allowed under Proposition 13 for outstanding indebtedness from voter-approved bonds). The result will be an understandable system without complicated or confusing formulas.

The language of Proposition 3 also ensures that the current Veterans' Property Tax Exemption guaranteed by the California Constitution is not reduced by this change.

Proposition 3 is designed to simplify the property tax system and make it more easily understandable to property taxpayers *without increasing or decreasing anyone's taxes. Proposition 3 in no way changes the property tax limitations or the amount of property taxes payable under Proposition 13.*

Proposition 3 received bipartisan support in the Legislature. We urge its adoption by the people.

ALAN SIEROTY
State Senator, 22nd District

ROSE ANN VUICH
State Senator, 15th District

MEL LEVINE
Member of the Assembly, 44th District

No argument against Proposition 3 was submitted

Text of proposed law appears on page 22

4 Limitation of Government Appropriations — Initiative Constitutional Amendment

Official Title and Summary Prepared by the Attorney General

LIMITATION OF GOVERNMENT APPROPRIATIONS. INITIATIVE CONSTITUTIONAL AMENDMENT. Establishes and defines annual appropriation limits on state and local governmental entities based on annual appropriations for prior fiscal year. Requires adjustments for changes in cost of living, population and other specified factors. Appropriation limits may be established or temporarily changed by electorate. Requires revenues received in excess of appropriations permitted by this measure to be returned by revision of tax rates or fee schedules within two fiscal years next following year excess created. With exceptions, provides for reimbursement of local governments for new programs or higher level of services mandated by state. Financial impact: Indeterminable. Financial impact of this measure will depend upon future actions of state and local governments with regard to appropriations that are not subject to the limitations of this measure.

Analysis by Legislative Analyst

Background:

The Constitution places no limitation on the amount which may be appropriated for expenditure by the state or local governments (including school districts), provided sufficient revenues are available to finance these expenditures. Nor does the Constitution limit the amount by which appropriations in one year may exceed appropriations in the prior year.

Proposal:

This ballot measure would amend the Constitution to:

- Limit the growth in appropriations made by the state and individual local governments. Generally, the measure would limit the rate of growth in appropriations to the percentage increase in the cost of living and the percentage increase in the state or local government's population.
- Establish the general requirement that state and local governments return to the taxpayers moneys collected or on hand that exceed the amount appropriated for a given fiscal year.
- Require the state to reimburse local governments for the cost of complying with "state mandates." "State mandates" are requirements imposed on local governments by legislation or executive orders.

The appropriation limits would become effective in the 1980–81 fiscal year, which begins on July 1, 1980, and ends on June 30, 1981. These limits would only apply to appropriations financed from the "proceeds of taxes," which the initiative defines as:

- All tax revenues (we are advised by Legislative Counsel that this would include those tax revenues carried over from prior years);
- Any proceeds from the investment of tax revenues; and
- Any revenues from a regulatory license fee, user charge or user fee that *exceed* the amount needed to cover the reasonable cost of providing the regulation, product or service.

The initiative would not restrict the growth in appropriations financed from other sources of revenue, including federal funds, bond funds, traffic fines, user fees based on reasonable costs, and income from gifts.

The *appropriation limit for the state government* in fiscal year 1980–81 would be equal to the sum of all appropriations initially available for expenditure during the period July 1, 1978–June 30, 1979, that were financed from the "proceeds of taxes," less amounts specifically excluded by the measure (discussed below), with the remainder adjusted for changes in the cost of living and population. The appropriations limit for each succeeding year would be equal to the limit for the prior year, adjusted for changes in the cost of living and population. Thus, even if the state appropriations in a given year were held below the level permitted by this ballot measure, the appropriation limit for the following year would not be any lower as a result. The limit would still be based on the limit for the prior year, and not on the actual level of appropriations for that year.

The following types of appropriations would *not* be subject to the state limit:

(1) State financial assistance to local governments—that is, any state funds which are distributed to local governments other than funds provided to reimburse these governments for state mandates;
(2) Payments to beneficiaries from retirement, disability insurance and unemployment insurance funds;
(3) Payments for interest and redemption charges on state debt existing on January 1, 1979, or payments on voter-approved *bonded* debt incurred after that date;
(4) Appropriations needed to pay the state's cost of complying with mandates imposed by federal laws and regulations or court orders.

We estimate that the state appropriated approxi-

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Text of Proposed Law

This initiative measure proposes to add a new Article XIII B to the Constitution; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED ADDITION OF ARTICLE XIII B

PROPOSED ARTICLE XIII B. CONSTITUTION GOVERNMENT SPENDING LIMITATION

SEC. 1. The total annual appropriations subject to limitation of the state and of each local government shall not exceed the appropriations limit of such entity of government for the prior year adjusted for changes in the cost of living and population except as otherwise provided in this Article.

SEC. 2. Revenues received by any entity of government in excess of that amount which is appropriated by such entity in compliance with this Article during the fiscal year shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years.

SEC. 3. The appropriations limit for any fiscal year pursuant to Sec. 1 shall be adjusted as follows:

(a) In the event that the financial responsibility of providing services is transferred, in whole or in part, whether by annexation, incorporation or otherwise, from one entity of government to another, then for the year in which such transfer becomes effective the appropriations limit of the transferee entity shall be increased by such reasonable amount as the said entities shall mutually agree and the appropriations limit of the transferor entity shall be decreased by the same amount.

(b) In the event that the financial responsibility of providing services is transferred, in whole or in part, from an entity of government to a private entity, or the financial source for the provision of services is transferred, in whole or in part, from other revenues of an entity of government, to regulatory licenses, user charges or user fees, then for the year of such transfer the appropriations limit of such entity of government shall be decreased accordingly.

(c) In the event of an emergency, the appropriation limit may be exceeded provided that the appropriation limits in the following three years are reduced accordingly to prevent an aggregate increase in appropriations resulting from the emergency.

SEC. 4. The appropriations limit imposed on any new or existing entity of government by this Article may be established or changed by the electors of such entity, subject to and in conformity with constitutional and statutory voting requirements. The duration of any such change shall be as determined by said electors, but shall in no event exceed four years from the most recent vote of said electors creating or continuing such change.

SEC. 5. Each entity of government may establish such contingency, emergency, unemployment, reserve, retirement, sinking fund, trust, or similar funds as it shall deem reasonable and proper. Contributions to any such fund, to the extent that such contributions are derived from the proceeds of taxes, shall for purposes of this Article constitute appropriations subject to limitation in the year of contribution. Neither withdrawals from any such fund, nor expenditures of (or authorizations to expend) such withdrawals, nor transfers between or among such funds, shall for purposes of this Article constitute appropriations subject to limitation.

SEC. 6. Whenever the Legislature or any state agency mandates a new program or higher level of service on any local government, the state shall provide a subvention of funds to reimburse such local government for the costs of such program or increased level of service, except that the Legislature may, but need not, provide such subvention of funds for the following mandates:

(a) Legislative mandates requested by the local agency affected;

(b) Legislation defining a new crime or changing an existing definition of a crime; or

(c) Legislative mandates enacted prior to January 1, 1975, or executive orders or regulations initially implementing legislation enacted prior to January 1, 1975.

SEC. 7. Nothing in this Article shall be construed to impair the ability of the state or of any local government to meet its obligations with respect to existing or future bonded indebtedness.

SEC. 8. As used in this Article and except as otherwise expressly provided herein:

(a) "Appropriations subject to limitation" of the state shall mean any authorization to expend during a fiscal year the proceeds of taxes levied by or for the state, exclusive of state subventions for the use and operation of local government (other than subventions made pursuant to Section 6 of this Article) and further exclusive of refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds;

(b) "Appropriations subject to limitation" of an entity of local government shall mean any authorization to expend during a fiscal year the proceeds of taxes levied by or for that entity and the proceeds of state subventions to that entity (other than subventions made pursuant to Section 6 of this Article) exclusive of refunds of taxes;

(c) "Proceeds of taxes" shall include, but not be restricted to, all tax revenues and the proceeds to an entity of government, from (i) regulatory licenses, user charges, and user fees to the extent that such proceeds exceed the costs reasonably borne by such entity in providing the regulation, product, or service, and (ii) the investment of tax revenues. With respect to any local government, "proceeds of taxes" shall include subventions received from the state, other than pursuant to Section 6 of this Article, and, with respect to the state, proceeds of taxes shall exclude such subventions;

(d) "Local government" shall mean any city, county, city and county, school district, special district, authority, or other political subdivision of or within the state;

(e) "Cost of living" shall mean the Consumer Price Index for the United States as reported by the United States Department of Labor, or successor agency of the United States Government; provided, however, that for purposes of Section 1, the change in cost of living from the preceding year shall in no event exceed the change in California per capita personal income from said preceding year;

(f) "Population" of any entity of government, other than a school district, shall be determined by a method prescribed by the Legislature, provided that such determination shall be revised, as necessary, to reflect the periodic census conducted by the United States Department of Commerce, or successor agency of the United States Government. The population of any school district shall be such school district's average daily

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4 Limitation of Government Appropriations — Initiative Constitutional Amendment

Arguments in Favor of Proposition 4

The 'Spirit of 13' citizen-sponsored initiative provides permanent constitutional protection for taxpayers from excessive taxation. A 'yes' vote for Proposition 4 will *preserve* the gains made by Proposition 13.

VERY SIMPLY, this measure:

1) WILL limit state and local government spending.
2) WILL refund or credit excess taxes received by the state to the taxpayer.
3) WILL curb excessive user fees imposed by local government.
4) WILL eliminate government waste by forcing politicians to rethink priorities while spending our tax money.
5) WILL close loopholes government bureaucrats have devised to evade the intent of Proposition 13.

ADDITIONALLY, this measure:

1) WILL NOT allow the state government to force programs on local governments without the state paying for them.
2) WILL NOT prevent the state and local governments from responding to emergencies whether natural or economic.
3) WILL NOT prevent state and local governments from providing essential services.
4) WILL NOT allow politicians to make changes (in this law) without voter approval.
5) WILL NOT favor one group of taxpayers over another.

Proposition 4 is a well researched, carefully written citizen-sponsored initiative that is sponsored by the signatures of nearly one million Californians who know that the 'Spirit of 13' is the next logical step to Proposition 13.

Your 'yes' vote will guarantee that excessive state tax surpluses will be returned to the taxpayer, not left in the State Treasury to fund useless and wasteful programs.

This amendment is a reasonable and flexible way to provide discipline in tax spending at the state and local levels and will not override the desires of individual communities—a majority of *voters* may adjust the spending limits for local entities such as cities, counties, etc.—it will force return of any additional taxation to voter control! To protect our government's credit rating on behalf of the taxpayers, the limit does not apply to user charges required to meet obligations to the holders of existing or future bonds regardless of voter approval.

For California's sake, we sincerely urge a Yes vote on Proposition 4 to continue the Spirit of Proposition 13.

PAUL GANN
Coauthor, Proposition 13

CAROL HALLETT
Member of the Assembly, 29th District
Assembly Minority Leader

No government should have an unrestricted right to spend the taxpayer's money. Government should be subject to fiscal discipline no less than the citizens it represents.

Proposition 4 is a thoughtfully drafted spending limit. It will require state and local governments to limit their budgets yet provide for reasonable growth and meet emergencies.

It will not require wholesale cuts in necessary services. Californians want quality education, health services, police and fire protection.

Our citizens want to provide adequately for the elderly, the disabled, the abandoned children. Such programs will not be impaired.

Government must continue to be sensitive to human needs. A rational spending limit is not only consistent with that view, it is essential if government services are to be rendered effectively.

Nothing hinders the prompt attention to real needs as surely as an inefficient bureaucracy.

We need lean, flexible, responsive government. We need sensible spending controls that will help eliminate waste without sacrificing truly useful programs.

Proposition 4 offers that possibility.

LEO T. McCARTHY
Member of the Assembly, 18th District
Speaker of the Assembly

Rebuttal to Arguments in Favor of Proposition 4

Don't be misled by promises!

The proponents make Proposition 4 sound like a cure-all for every government ill. They make Proposition 4 seem like a magic wand that will transform government into an efficient machine perfectly responsive to the public will. What nonsense!

Proposition 4

- will NOT eliminate government waste;
- will NOT eliminate user fees;
- will NOT allow governments to respond to emergencies without severe penalty.

What about waste? Proposition 4 puts the power to decide how spending limits will be met right back into the hands of the very same officials who have yet to prove they know how to cut waste. They find it much easier to cut services than to cut fat!

What about fees? The measure itself states that user fees, service charges and admission taxes can still be levied. (Check Sections 3(b) and 8(c)).

What about emergencies? Every time an emergency occurs, future expenditures in other important areas will have to be cut back. It is irresponsible to pit everyday services (like police and fire protection) against the extraordinary needs of an emergency.

Proposition 4

- will NOT guarantee YOU a tax refund;
- will NOT preserve needed services;
- will NOT allow California to cope with the ravages of inflation and unemployment.

Recession and inflation are ganging up on government *and* on taxpayers. Proposition 4 is too inflexible to assure adequate government services for an uncertain future.

VOTE NO ON PROPOSITION 4!

JONATHAN C. LEWIS
Executive Director
California Tax Reform Association

SUSAN F. RICE
President
League of Women Voters of California

JOHN F. HENNING
Executive Secretary-Treasurer
California Labor Federation AFL-CIO

Arguments printed on this page are the opinions of the authors and have not been checked for accuracy by any official agency.

Limitation of Government Appropriations — Initiative Constitutional Amendment

4

Argument Against Proposition 4

Proposition 4 DOES NOT guarantee that the "fat" will be cut from government. Proposition 4 IS NOT tax reform. Proposition 4 is, instead, a rash measure that places a straitjacket on government at the very moment when Californians are faced with an uncertain economic future.

Some of the state's largest businesses, financial institutions, utilities, agribusiness and real estate interests spent $537,000 putting Proposition 4 on the ballot. Doesn't it strike you as strange that these interests are backing a so-called "grassroots" initiative?

All Californians are understandably concerned about rising taxes. We all want efficient government *and* a fair tax system. But who will really benefit from Proposition 4? Will it be *you* or the special interests backing this measure?

Proposition 4 does not guarantee tax relief for the individual. There is no guarantee that any excess government revenues will necessarily be used to lower *your* taxes. Genuine tax reform means changing the tax system so everyone pays his or her fair share.

During the past 20 years the burden of taxation has shifted from business and commercial interests to the individual taxpayer. The percentage of state and local taxes paid by business has dropped from 57% to only 37%. This partially accounts for the increase in your tax bills.

It is a myth to believe that Proposition 4 will streamline government. Nowhere in the proposal is there a requirement to cut unnecessary or wasteful government spending. The "fat" in government could go untouched while cuts are made in vital and important services.

Passage of this measure could cripple economic growth in California. There will be no advantage for cities and counties to approve new commercial developments. Because of the spending limitation, revenues generated by new commercial development cannot be spent by local entities already at their spending limit. However, services must still be provided to new commercial and housing developments, which will result in a reduction in the level of services already provided to existing residents and businesses. Communities will be forced to choose between creating new jobs and cutting services.

Proposition 4 is smokescreen politics. That is why we ask you to join us in voting NO.

JONATHAN C. LEWIS
Executive Director
California Tax Reform Association

SUSAN F. RICE
President
League of Women Voters of California

JOHN F. HENNING
Executive Secretary-Treasurer
California Labor Federation, AFL-CIO

Rebuttal to Argument Against Proposition 4

The arguments submitted by the groups opposing Proposition 4 should come as no surprise—particularly to those of us who supported Proposition 13 last year. Scare tactics, distortion and a healthy smattering of "buzzwords" are the same devices used time and again against the people whenever they decide it's time to offer a logical and reasonable solution. In this case, the people simply want to place *a limit on government spending.*

If you are among the people who think government should *not* have the unrestricted right to spend taxpayers' money, you can recite these facts to your friends and neighbors.

FACT: In the past 20 years, government spending increased 5 times beyond the allowable limits of Proposition 4.

FACT: Proposition 4 *requires* that surplus funds be returned to the taxpayers.

FACT: Proposition 4 will force politicians to prioritize and economize just as households and small businesses do to make ends meet.

FACT: Proposition 4 is supported by nearly one million voter signatures, the Democratic and Republican leaders of the State Assembly, state cochairperson Secretary of State March Fong Eu, the California Taxpayers' Association, the California Chamber of Commerce, the 83,000 family-farm member California Farm Bureau, the 55,000 small business member Federation of Independent Business, local taxpayer associations, and scores of civic and community leaders concerned about the ever-increasing growth of government spending.

Please join us in voting "Yes" on Proposition 4 to maintain the Spirit of 13.

PAUL GANN
Coauthor, Proposition 13

Arguments printed on this page are the opinions of the authors and have not been checked for accuracy by any official agency.

mately $7.9 billion from the "proceeds of taxes" in fiscal year 1978–79, after taking into account the exclusions listed above. This amount, referred to as "appropriations subject to limitation," represents approximately 40 percent of *total* General Fund and special fund appropriations made for that fiscal year. The main reason why the state's appropriation limit covers less than half of the state's total expenditures is that a large proportion of total state expenditures represents funds passed on to local governments for a variety of public purposes. Under this ballot measure, these funds would be subject to the limits on local, rather than state, appropriations.

The *appropriation limit for a local government* in fiscal year 1980–81 would be equal to the sum of all appropriations initially available for expenditure during the period of July 1, 1978–June 30, 1979, that were financed from the "proceeds of taxes," *plus* state financial assistance received in that year, *less* amounts specifically excluded by the measure (discussed below), with the remainder adjusted for changes in the cost of living and population. The appropriations limit in each subsequent year would be equal to the limit for the prior year, adjusted for changes in the cost of living and population. For each school district, "population" is defined in this measure as the district's average daily attendance.

The following types of appropriations would not be subject to the local limit:

(1) Refunds of taxes;
(2) Appropriations required for payment of local costs incurred as a result of state mandates. (The initiative requires the state to reimburse local governments for such costs, and the appropriation of such funds would be subject to limitation at the state level.);
(3) Payments for interest and redemption charges on debt existing on or before January 1, 1979, or payments on voter-approved *bonded* debt incurred after that date;
(4) Appropriations required to pay the local government's cost of complying with mandates imposed by federal laws and regulations or court orders.

Furthermore, any special district which was in existence on July 1, 1978, and which had a 1977–78 fiscal year property tax rate of 12½ cents per $100 of assessed value or less, would never be subject to a limit on appropriations. Special districts which do not receive any funding from the "proceeds of taxes" would also be exempt from the limits.

Under the initiative, the limit on state or local government appropriations could be changed in one of four ways:

(1) An appropriation limit *may* be changed temporarily if a majority of voters in the jurisdiction approve the change. Such a change could be made for one, two, three, or four years, but it could *not* be effective for more than four years unless a majority of the voters again voted to change the limit.
(2) In the event of an emergency, an appropriation limit *may* be exceeded for a single year by the governing body of a local government without voter approval. However, if the governing body provides for an emergency increase, the appropriation limits in the following three years would have to be reduced by an amount sufficient to recoup the excess appropriations. The initiative does not place any restrictions upon the types of circumstances which may be declared to constitute an emergency.
(3) If the financial responsibility for providing a program or service is transferred from one entity of government to another *government* entity, the appropriation limits of both entities *must* be adjusted by a reasonable amount that is mutually agreed upon. Any increase in one entity's limit would have to be offset by an equal decrease in the other entity's limit.
(4) If an entity of government transfers the financial responsibility for providing a program or service from itself to a *private* entity, or the source of funds used to support an existing program or service is shifted from the "proceeds of taxes" to regulatory license fees, user charges or use fees, the entity's appropriation limit *must* be decreased accordingly.

If, in any fiscal year, an entity of government were to receive or have on hand revenues in excess of the amount that it appropriates for that year, it would be required to return the excess to taxpayers within the next two fiscal years. The initiative specifies that these funds are to be returned by lowering tax rates or fee schedules. In addition, Legislative Counsel has advised us that direct refunds of taxes paid would also be permitted under the measure.

Because certain types of appropriations would not be directly subject to the limitations established by this ballot measure, it would be possible for the state or a local government with excess funds to spend these funds in the exempt categories rather than return the funds to the taxpayers. For example, the state could appropriate any excess revenues for additional financial assistance to local governments, because such assistance is excluded from the limit on state appropriations. (This, in turn, might result in the return of excess revenues to local taxpayers if a local government were unable to spend these funds within its limit.) Similarly, a local government with an unfunded liability in its retirement system could appropriate its excess revenues to reduce the liability, as such an appropriation would be considered a payment toward a legal "indebtedness" under this ballot measure.

Finally, the initiative would establish a requirement that the state provide funds to reimburse local agencies

r the cost of complying with state mandates. The initiative specifies that the Legislature need not provide such reimbursements for mandates enacted or adopted *prior* to January 1, 1975, but does not require explicitly that reimbursement be provided for mandates enacted or adopted after that date. Legislative Counsel advises us that under this measure the state would only be *required* to provide reimbursements for costs incurred as a result of mandates enacted or adopted *after* July 1, 1980.

Fiscal Impact:

This proposition is primarily intended to limit the rate of growth in state and local spending by imposing a limit on certain categories of state and local appropriations. As noted above, approximately 60 percent of current state expenditures would be excluded from the limit on state appropriations, although nearly all of these expenditures would be subject to limitation at the local level. Also, some unknown percentage of local government expenditures would not be subject to the limits on either state or local appropriations. Thus, the fiscal impact of this ballot measure would depend on two factors:

(1) What the rate of growth in state and local "appropriations subject to limitation" would be, in the absence of this limitation; and

(2) The extent to which any reductions in "appropriations subject to limitation" required by the measure are offset by increases in those appropriations *not* subject to limitation.

Impact on State Government. During six of the past ten years, total state spending has increased more rapidly than the cost of living and population. Thus, it is likely that, had this measure been in effect during those years, it would have caused "appropriations subject to limitation" to be less than they actually were.

It is *not* possible to predict with any accuracy the future rate of growth in state "appropriations subject to limitation." Thus it is not possible to estimate with any reliability what effect the measure, if approved, would have on such appropriations in the future. However, based on the best information now available (July 1979), we estimate that passage of the initiative would cause state "appropriations subject to limitation" in fiscal year 1980–81 to be modestly lower than they probably would be if the initiative were not approved. This assumes that state reimbursement would only be required for state mandates enacted or adopted after July 1, 1980. If the courts ruled that reimbursement was required for mandates enacted or adopted after January 1, 1975, the impact of the measure on "appropriations subject to limitation" would be substantial. This is because the state would be required to provide significant reimbursements to local governments within this limitation. We have no basis for predicting the impact in subsequent years.

Whether this would result in a reduction in *total* state spending would depend on whether the state decided to use the funds that could not be spent under the limitation for (1) additional financial assistance to local governments (or for some other category of appropriations excluded from the limit), or (2) state tax relief. Thus, the effect of this ballot measure on state spending in 1980–81 could range from no change to a modest reduction.

Impact on Local Governments. Existing data do not permit us to make reliable estimates of either the appropriation limits that local governments would face in fiscal year 1980–81 if this ballot measure were approved, or what these governments would spend in that fiscal year if the initiative were not approved. Nonetheless, we estimate that those school districts experiencing significant declines in enrollment would have to reduce "appropriations subject to limitation" significantly below what these appropriations would be otherwise. We also estimate that most cities and counties, at least initially, would not be required to reduce the growth in these categories of appropriations by any significant amounts. However, some local governments, especially those with stable or declining populations, could be subject to more significant restrictions on their "appropriations subject to limitation."

Whether any reductions in "appropriations subject to limitation" caused by this measure would result in corresponding reductions in *total* local government expenditures and a return of excess revenues to the taxpayers would depend on whether increased spending resulted in those categories *not* subject to limitation. We have no basis for estimating the actions of local governments in this regard.

Conclusion. Thus, while a reduction in the rate of growth in state or local government expenditures may result from this ballot measure in fiscal year 1980–81, there may be instances in which no reduction in the rate of growth in an individual government's spending occurs. The impact of this measure in subsequent years cannot be estimated, although the measure could cause government spending to be significantly lower than it would be otherwise.

TEXT OF PROPOSITION 3

This amendment proposed by Senate Constitutional Amendment No. 60 (Statutes of 1978, Resolution Chapter 85) expressly adds a section to the Constitution; therefore, provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED AMENDMENT TO ARTICLE XIII

SEC. 3.5. In any year in which the assessment ratio is changed, the Legislature shall adjust the valuation of assessable property described in subdivisions (o), (p) and (q) of Section 3 of this article to maintain the same proportionate values of such property.

TEXT OF PROPOSITION 4—*Continued from page 17*

attendance as determined by a method prescribed by the Legislature;

(g) "Debt service" shall mean appropriations required to pay the cost of interest and redemption charges, including the funding of any reserve or sinking fund required in connection therewith, on indebtedness existing or legally authorized as of January 1, 1979 or on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose.

(h) The "appropriations limit" of each entity of government for each fiscal year shall be that amount which total annual appropriations subject to limitation may not exceed under Section 1 and Section 3; provided, however, that the "appropriations limit" of each entity of government for fiscal year 1978–79 shall be the total of the appropriations subject to limitation of such entity for that fiscal year. For fiscal year 1978–79, state subventions to local governments, exclusive of federal grants, shall be deemed to have been derived from the proceeds of state taxes.

(i) Except as otherwise provided in Section 5, "appropriations subject to limitation" shall not include local agency loan funds or indebtedness funds, investment (or authorizations to invest) funds of the state, or of an entity of local government in accounts at banks or savings and loan associations or in liquid securities.

SEC. 9. "Appropriations subject to limitation" for each entity of government shall not include:

(a) Debt service.

(b) Appropriations required for purposes of complying with mandates of the courts or the federal government which, without discretion, require an expenditure for additional services or which unavoidably make the providing of existing services more costly.

(c) Appropriations of any special district which existed on January 1, 1978, and which did not as of the 1977–78 fiscal year levy an ad valorem tax on property in excess of 12½ cents pe $100 of assessed value; or the appropriations of any specia. district then existing or thereafter created by a vote of the people, which is totally funded by other than the proceeds of taxes.

SEC. 10. This Article shall be effective commencing with the first day of the fiscal year following its adoption.

SEC. 11. If any appropriation category shall be added to or removed from appropriations subject to limitation, pursuant to final judgment of any court of competent jurisdiction and any appeal therefrom, the appropriations limit shall be adjusted accordingly. If any section, part, clause or phrase in this Article is for any reason held invalid or unconstitutional, the remaining portions of this Article shall not be affected but shall remain in full force and effect.

MARCH FONG EU
Secretary of State
1230 J STREET
SACRAMENTO, CA 95814

BULK RATE
U.S.
POSTAGE
PAID
Secretary of
State

In an effort to reduce election costs, the State Legislature has authorized counties having this capability to mail only one ballot pamphlet to addresses where more than one voter with the same surname resides. If you wish additional copies, you may obtain them by calling or writing to your county clerk or registrar of voters.

En un esfuerzo por reducir los costos electorales, la Legislatura Estatal ha autorizado a los condados que cuentan con la capacidad de hacerlo, enviar una sola balota a direcciones en que reside más de un votante del mismo apellido. Si usted desea copias adicionales, llame o escriba al secretario del condado o registrador de votantes que le corresponde y se las suministrarán.

CERTIFICATE OF SECRETARY OF STATE

I, March Fong Eu, Secretary of State of the State of California, do hereby certify that the foregoing measures will be submitted to the electors of the State of California at the SPECIAL ELECTION to be held throughout the State on November 6, 1979, and that the foregoing pamphlet has been correctly prepared in accordance with law.

Witness my hand and the Great Seal of the State in Sacramento, California, this first day of August 1979.

March Fong Eu

MARCH FONG EU
Secretary of State

HISTORY OF SAN DIEGO, 1542-1908

PART FOUR: CHAPTER 4: WATER DEVELOPMENT

The question of an adequate supply of water for San Diego always has been one of the most vital problems in the life of the place. During the short life of "Davis's Folly," or "Graytown," and for some time after Horton came the inhabitants depended upon water hauled from the San Diego River. The early settlers still remember paying Tasker & Hoke twenty-five cents a pail for this water. After that, they were for some time dependent upon a few wells. An effort to find an artesian supply began in 1871. A well was sunk by Calloway & Co. in which some water was found at a depth of 250 feet. They asked for city aid to enable them to continue boring, but the proposition to issue $10,000 city bonds to carry on the work was defeated at an election held in July, 1872. The well in the court house yard furnished a good supply, which was used to some extent for irrigation. In 1873 a well was completed at the Horton House, which gave great satisfaction and was thought to demonstrate that "an inexhaustible supply of good water exists at but a comparatively trifling depth, which can be reached with little expense." The well which Captain Sherman sank in the western part of his new addition, was also an important factor.

The town soon outgrew the possibility of dependence upon wells, early in its first boom, and in 1872 San Diego's first water company was organized. This was the San Diego Water Company, incorporated January 20, 1873. The principal stockholders were: H. M. Covert and Jacob Gruendike; the incorporators were these two and D. W. Briant, D.O. McCarthy, Wm. K. Gardner, B. F. Nudd, and Return Roberts. The capital stock was $90,000, divided into 900 shares of $100 each. The term of the incorporation was fifty years from February 1, 1873. H. M. Covert was the first president.

The first works of this company were artesian wells and reservoirs. They bored a well in Pound Canyon, near the southeast corner of the Park, and found water, but at a depth of 300 feet the drill entered a large cavern and work had to be abandoned. The water rose to within 60 feet of the surface and remained stationary. They then sank a well 12 feet in diameter around the first pipe, to a depth of 170 feet, and from the bottom of this second boring put down a pipe to

tap the subterranean stream. The large well was then bricked up and cemented. It had a capacity of 54,000 gallons per hour. Two small reservoirs were also constructed, one at 117 feet above tide water, with a capacity of 70,000 gallons, and the other more than 200 feet above the tide, with a capacity of 100,000 gallons. The water was pumped from the 12-foot well into these two reservoirs. Such were San Diego's first waterworks. In March, 1874, the *Union* said with pride:

"About 18,000 feet of pipe will be put down for the present. Pipe now extends from the smaller reservoir down Eleventh and D, along D to Fifth, down Fifth to K, along K to Eleventh, and will also run through Ninth from D to K and from Fifth along J to Second. The supply from this well will be sufficient for 30,000 population and is seemingly inexhaustible."

But notwithstanding this confidence, in a few years the water supply in Pound Canyon was found to be inadequate, and it was determined to bring water from the river. In the summer of 1875 the company increased its capital stock to $250,000 for the purpose of making this improvement. A reservoir was built at the head of the Sandrock Grade, on University Heights. The water had to be lifted several hundred feet from the river to the reservoir, and this pumping was expensive. In order to avoid this expense and improve the service, the company drove a tunnel through the hills, beginning at a point in Mission Valley below the new County Hospital and coming out on University Avenue near George P. Hall's place. The water was piped through this tunnel, which is still in a fair state of preservation. A new reservoir was built at the southwest corner of Fifth and Hawthorne Streets; and these works constituted the San Diego water system until the pumping plant and reservoir at Old Town were constructed. This old reservoir gave sufficient pressure for the time being, and it was not then believed the high mesa lands would ever be built upon.

In the fall of 1879 the papers note that the water mains had been extended down K Street as far as the flour mill and thence up Twelfth to the Bay View Hotel. Early in 1886 the long delayed work on the river system, near Old Town, was resumed. From numerous wells in the river bed, the water was pumped into the large reservoir on the hill. At this time the company also made many extensions and laid new pipes for almost the entire system. The pumps installed had a capacity of 6,600,000 gallons per twenty-four hours. There are four covered reservoirs with a total capacity of 4,206,000 gallons. A standpipe was placed on Spreckels Heights, 136 feet high and 36 inches in diameter. The top of this standpipe was 401 feet above tide, and it regulated the pressure all over the city. According to the engineer's statement, about 30,000,000 gallons were pumped during each month of the year 1888. The pipe lines in January, 1890,

exceeded 60 miles and had cost $800,000. There were 185 fire hydrants connected, for which the company received $100 each per annum.

The next large undertaking in the way of water development was that of the San Diego Flume Company. This project originated with Theodore S. Van Dyke and W. E. Robinson, who worked upon it for some time before they succeeded in interesting anyone else. Then General S. H. Marlette became interested and these three associates secured the water rights needed for the development. In 1885, they planned to form a corporation, to be called the San Diego Irrigating Company, but for some reason the plan failed. The promoters continued to work indefatigably, however, and finally succeeded in enlisting the interest of George D. Copeland, A. W. Hawley, and a few others, and soon were in a position to incorporate. The articles of incorporation were filed in May, 1886. Besides those mentioned, the following were incorporators: Milton Santee, R. H. Stretch, George W. Marston, General T. T. Crittenden, Robert Allison, J. M. Luco, and E. W. Morse.

Sufficient money was paid in to start the work. Copeland became President, Robinson Vice-President, and Stretch Engineer. Captain Stretch served about six months and did some of the preliminary work. He was succeeded by Lew B. Harris, who served about a year, and then J. H. Graham became the engineer and remained until the work was completed. The capital stock was $1,000,000, divided into 10,000 shares of $100 each.

The difficulties encountered were many. There was an inefficient contractor whose men the company was compelled to pay. It was asserted that the flume encroached upon an Indian reservation, and there was frequently a lack of funds. Their means becoming exhausted, some of the original incorporators were obliged to step out. Copeland became manager in place of Robinson, and Morse president in place of Copeland. Later, Bryant Howard became president and W. H. Ferry superintendent, and these two men saw the work completed.

This great pioneer undertaking was organized and carried out by far-seeing, courageous men, for the purpose of irrigating the rich lands of El Cajon Valley and also of bringing a supply of water to San Diego. Incidentally, but quite as important, they were aware that they were making a demonstration of the agricultural possibilities of San Diego's derided back country. There were a few citizens who understood the importance of the undertaking and watched the course of events with almost breathless interest. But the majority were too busy with real estate speculations to be much concerned—at least, this was true of the floating population of newcomers. Van Dyke writes pointedly: "The writer and his associates who were struggling to get the San Diego River water out of the mountains to give the city an abundant supply, and reclaim the beautiful

tablelands about it, were mere fools 'monkeying' with an impracticable scheme, and of no consequence anyhow."

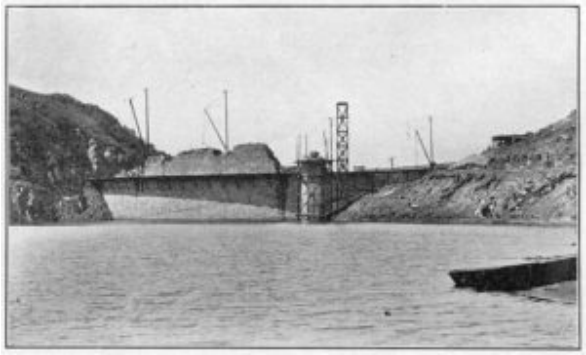
DEDICATION OF THE SAN DIEGO FLUME. The man at the extreme right is Governor Waterman. The man in the second row wearing a straw hat is W. E. Robinson, one of the originators of the enterprise.

On February 22, 1889, the completion of the flume was celebrated in San Diego, most impressively. There was a street parade over a mile long, and a display of the new water. A stream from a 1¾ inch nozzle was thrown 125 feet into the air, at the corner of Fifth and Beech Streets, and at the corner of Fifth and Ivy, another one 150 feet high, to the admiration of the citizens. There were 19 honorary presidents of the day on the grand stand. Bryant Howard, M. A. Luce, George Puterbaugh, Hon. John Brennan of Sioux City, Iowa, D. C. Reed, and Colonel W. G. Dickinson spoke, and letters and telegrams from absent notables were read.

It is really a pity to have to spoil the story of the celebration of such an achievement, with a joke, but—the truth is, the water in the pipes at the time was not the Flume Company's water, at all. The Flume Company had placed no valves in their pipes, and, consequently, when they turned the water on, it was airbound and the water advanced very slowly. When the day for the celebration came, the water being still several miles away, the officers of the San Diego Water Company quietly turned their own water into the pipes, and had a good laugh in their sleeves while listening to the praises the people lavished on the fine qualities of the "new water." The Flume Company's water arrived three weeks later.

The flume emerges from the San Diego River a short distance below the mouth of Boulder Creek, and proceeds thence down the Capitan Grande Valley to El Cajon Valley, about 250 feet from the Monte. From this point the flume curves to the east and south of El Cajon, at a considerable elevation. From El Cajon, the flume is brought to the city by the general route of the Mesa road. The total length of the flume proper is 35.6 miles. The reservoir is an artificial lake on the side of Cuyamaca Mountain, about fifty miles from San Diego, at an elevation of about 5,000 feet. Its capacity is nearly 4,000,000,000 gallons. It is formed by a breastwork of clay and cement, built across the mouth of a valley, forming a natural basin.

The construction of this flume exerted a very important influence in bringing on and sustaining the great boom, although it was not completed until after the close of that episode. The officers at the time of its completion. were: Bryant Howard, president; W. H. Ferry, vice-president and manager; L. F. Doolittle, secretary; Bryant Howard, W. H. Ferry, M. A. Luce, E. W. Morse, and A. W. Hawley, directors. These men are entitled to the credit of being the first to carry to a successful conclusion a scheme of development of the water resources of San Diego County, upon a large scale.



SWEETWATER DAM IN COURSE OF CONSTRUCTION, 1887.

The construction of the Sweetwater Dam was begun November, 1886, and completed March, 1888, under the well-known engineer, James D. Schuyler. The Dam alone cost $225,000 and the lands used for reservoir site I7. .9,000 more. The original investment in the system of distribution exceeded half a million dollars. The reservoir stores 7,000,000,000 gallons and supplies National City Chula Vista, and a small area of land in Sweetwater Valley.

The Otay Water Company filed its articles of incorporation March 15, 1886, its declared object being to irrigate the Otay Valley lands and the adjacent mesa, and E. S. Babcock being the principal owner. In 1895 he sold a half interest to the Spreckels Brothers and the name of the corporation was changed to the Southern California Mountain Water Company. Later, the Spreckelses became sole owners. This company has an important contract under which it now supplies the city with its entire water supply. Its storage dam is at Moreno and its pipe line was extended to the city reservoir and the delivery of water commenced in the summer of 1906.

The San Diego Water Company was incorporated in 1889, and in 1894 the Consolidated Water Company was formed for the purpose of uniting the San Diego Water Company and the San Diego Flume Company under one ownership. The Consolidated acquired by exchange of securities all the stock and bonds of both the water and the flume company. On July 21, 1901, the system of distribution within the city limits became the property of the municipality, a bond issue of $600,000 having been voted for its acquisition. The city obtained its supply from the pumping plant in Mission Valley until August, 1906, when its

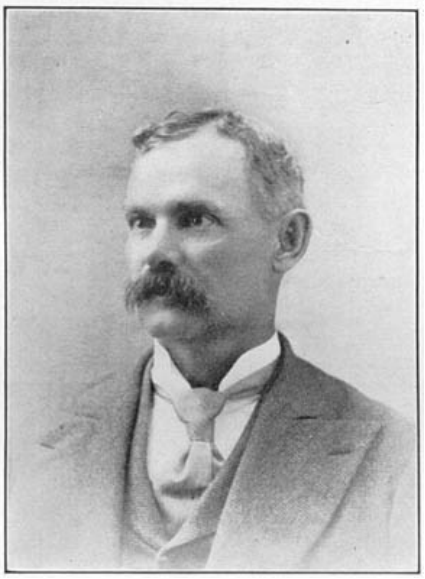
E.S. BABCOCK. Who came to San Diego in 1884 to hunt quail and remained to influence events more powerfully than anyone since Horton. A man of big conceptions and restless enterprise, he founded Coronado, engaged assiduously in water development, and was identified with numerous public utility corporations. Moreover, he it was who interested John D. Spreckels in local enterprises and thereby started as series of developments which is still unfolding to the immense advantage of the city and region.

contract with the Southern California Mountain Water Company went into operation. Under the terms of this contract, the city obtains an abundant supply of water from mountain reservoirs at a price of four cents per thousand gallons, the water being delivered to its mains on University Heights.

The water question has been from the beginning a prolific source of controversy between the people and various corporations, and every important stage of its evolution, from the day of the earliest wells to the time when the great Spreckels system was sufficiently developed to meet the present demands, was marked by acrimonious discussion and sharp divisions in the community. The Spreckels contract was not approved by public opinion until an unsuccessful effort had been made to increase the city's own supply by the purchase of water-bearing lands in El Cajon Valley and the establishment of a great pumping plant at that point. The municipal election of 1905 turned largely upon this issue. It resulted in the election of a mayor favorable to the El Cajon project, with a council opposed to it. A referendum on the subject revealed a curious state of the public mind. A majority favored the purchase of the lands, but opposed their development. The majority in favor of buying lands fell short of the necessary two-thirds, however, and the city government then turned to the Southern California Mountain Water Company as the only feasible means of creating a water supply to meet the needs of a rapidly growing city.

The mayor vetoed the contract with the Spreckels company when it first came to him from the council, urging that it be revised in such a way as to put its legality beyond all possible question (the contract was for a period of ten years, while the city attorney advised that it could legally be made for only one year at a time), and also to reserve the city's right to operate its pumping plant in Mission Valley sufficiently to keep it in condition to meet an emergency. The council promptly passed the contract over the mayor's veto, whereupon it was signed by the

executive. The act was followed by the rapid completion of the pipe line to the city and the construction of an aerating plant on University Heights.



C.S. ALVERSON. To whom the public and the government is largely indebted for the exact knowledge concerning the water resources of the western slope of San Diego County, which he has studied for twenty years.

The consummation of this contract ended the long struggle for water and marked the beginning of a new epoch in the city's life. This fortunate result was not due to the fact that the contract was made with any particular company, nor to the fact that it brought water from any particular source. It was due to the fact that the people of San Diego had obtained a cheap and reliable water supply adequate to the needs of a city three or four times its present size. Water from El Cajon or from San Luis Rey would have served the same purpose and exerted the same happy influence on the growth of population and stability of values. Since the city had failed to adopt a project of its own, it was very fortunate to possess a capitalist able and willing to meet its needs upon reasonable terms at a crucial moment in its history.

Return to **Books**.

San Diego History Center
Casa De Balboa, Balboa Park
1649 El Prado, Suite #3
San Diego, CA 92101

Phone: 619-232-6203

For general inquiries: info@sandiegohistory.org
For research questions: collections@sandiegohistory.org

For event and exhibition updates, sign up for our newsletter: San Diego History Center NOW! Newsletter

San Diego History Center Hours
Daily 10 a.m. - 5 p.m.
Closed Thanksgiving and Christmas

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Monday & Tuesday, 9 a.m. - 5 p.m.:
One-on-One Appointments Only

Wednesday – Friday, 9:30 a.m. - 1 p.m.:
Walk-In Research – No Appointment Necessary

Wednesday – Friday, 1:30 p.m. - 5 p.m.:
One-on-One Appointments Only

Closed Thanksgiving and Christmas

Junípero Serra Museum
September 5, 2017 – June 1, 2018: Saturday, Sunday from 10:00 am-4:00 pm
Closed Thanksgiving & Christmas

For a list of upcoming closures at each site, see Visit and click on the location you will be visiting.

The San Diego History Center is funded in part by the City of San Diego Commission for Arts and Culture and by the County of San Diego. The History Center is a member of the Balboa Park Cultural Partnership and the San Diego Museum Council. The History Center is also a Smithsonian Affiliate.

NEW ISSUE – BOOK-ENTRY ONLY

RATINGS: Fitch – "AA-" (stable outlook)
Moody's – "Aa3" (stable outlook)
See "RATINGS."

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2018 Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the 2018 Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code. In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the 2018 Bonds is exempt from State of California personal income. See "TAX MATTERS."

$243,180,000
PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
SUBORDINATED WATER REVENUE BONDS, SERIES 2018A
(Payable Solely From Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund)

Dated: Date of Delivery **Due: August 1, as shown on the inside cover page**

The $243,180,000 Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Bonds, Series 2018A (Payable Solely From Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the "2018 Bonds") are being issued by the Public Facilities Financing Authority of the City of San Diego (the "Authority") pursuant to Article 4 (commencing with Section 6584, known as the Marks-Roos Local Bond Pooling Act of 1985) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Government Code") and the Indenture, dated as of January 1, 2009, as amended and supplemented, including as supplemented by the Sixth Supplemental Indenture, dated as of December 1, 2018 (collectively, the "Indenture"), each by and between the Authority and U.S. Bank National Association, as successor trustee (the "Trustee"). The proceeds of the 2018 Bonds will be used to (a) finance capital improvements to the Water System (the "Water System") of The City of San Diego (the "City"), (b) pay all of the outstanding principal of the Subordinated Water Revenue Commercial Paper Notes, Series A (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) and the Subordinated Water Revenue Commercial Paper Notes, Series B (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) of the Authority, which were issued to initially finance a portion of the capital improvements to the Water System, and (c) pay the costs of issuance incurred in connection with the issuance of the 2018 Bonds. See "PLAN OF FINANCE." Capitalized terms used on this cover page and not otherwise defined shall have the meanings ascribed to them elsewhere in this Official Statement. See in particular "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture" and "– Master Installment Purchase Agreement."

The 2018 Bonds are limited obligations of the Authority secured by Subordinated Revenues consisting primarily of 2018 Subordinated Installment Payments to be made by the City to the San Diego Facilities and Equipment Leasing Corporation (the "Corporation") under the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009 (the "Original Master Installment Purchase Agreement"), as amended and supplemented, including as supplemented by the 2018 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of December 1, 2018 (the "2018 Supplement" and, together with the Original Master Installment Purchase Agreement as previously amended and supplemented, the "Master Installment Purchase Agreement"), each by and between the City and the Corporation, and other assets pledged therefor under the Indenture. The 2018 Subordinated Installment Payments will be assigned by the Corporation to the Authority pursuant to the Assignment Agreement. The pledge and right of payment from Net System Revenues securing the 2018 Subordinated Installment Payments will be subordinate to the payment by the City of Senior Obligations and on parity with the payment of the City of other Subordinated Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS."

The 2018 Bonds are limited obligations of the Authority payable solely from and secured solely by the Subordinated Revenues pledged therefor and amounts on deposit in the Subordinated Bonds Payment Fund established under the Indenture. The obligation of the City to make 2018 Subordinated Installment Payments under the 2018 Supplement does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the full faith and credit of the Authority, the City, the County of San Diego (the "County"), the State of California (the "State"), or any political subdivision of the State nor the taxing power of the City, the County, the State, or any political subdivision of the State is pledged to the payment of the principal of or interest on the 2018 Bonds. The Authority has no taxing power. Neither the 2018 Bonds nor the obligation of the City to make 2018 Subordinated Installment Payments constitutes an indebtedness of the Authority, the City, the County, the State, or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation or restriction.

The 2018 Bonds will bear interest at the respective rates set forth on the inside cover page hereof. Interest on the 2018 Bonds will accrue from the date of delivery of the 2018 Bonds and is payable on February 1 and August 1 of each year, commencing on February 1, 2019. See "DESCRIPTION OF THE 2018 BONDS – General."

The 2018 Bonds are subject to redemption as described herein. See "DESCRIPTION OF THE 2018 BONDS – Redemption of 2018 Bonds."

The 2018 Bonds will be issued only in fully-registered form in denominations of $5,000 and any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2018 Bonds. Ownership interests in the 2018 Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the 2018 Bonds, the principal, the redemption premium, if any, and interest on the 2018 Bonds will be made as described in "APPENDIX D – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM."

This cover page contains information for general reference only. Potential purchasers are advised to read the entire Official Statement to obtain information essential to making an informed investment decision. See "INTRODUCTION – Changes from the Preliminary Official Statement" for information that was not included in the Preliminary Official Statement.

The 2018 Bonds are offered when, as, and if delivered to and received by the Underwriters, subject to the approval of legality by Hawkins Delafield & Wood LLP, Bond Counsel. Certain legal matters will be passed upon for the Authority by Hawkins Delafield & Wood LLP, for the Authority and the City by Mara W. Elliott, City Attorney, and for the Underwriters by their counsel, Nixon Peabody LLP, Los Angeles, California. It is anticipated that the 2018 Bonds will be available for delivery through the facilities of DTC in New York, New York on or about January 3, 2019.

BofA Merrill Lynch **Citigroup**

HilltopSecurities **UBS Financial Services Inc.** **280 Securities LLC**

Dated: December 12, 2018

MATURITY SCHEDULE

$243,180,000
PUBLIC FACILITIES FINANCING AUTHORITY OF
THE CITY OF SAN DIEGO
SUBORDINATED WATER REVENUE BONDS, SERIES 2018A

Base CUSIP No.† 79730C

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield‡	CUSIP† (Suffix)	Maturity Date (August 1)	Principal Amount	Interest Rate	Yield‡	CUSIP† (Suffix)
2019	$3,815,000	5.00%	1.49%	HF4	2029	$6,290,000	5.00%	2.42%*	HR8
2020	4,010,000	5.00	1.58	HG2	2030	6,615,000	5.00	2.55*	HS6
2021	4,215,000	5.00	1.62	HH0	2031	6,955,000	5.00	2.66*	HT4
2022	4,435,000	5.00	1.69	HJ6	2032	7,310,000	5.00	2.76*	HU1
2023	4,660,000	5.00	1.76	HK3	2033	7,685,000	5.00	2.84*	HV9
2024	4,900,000	5.00	1.84	HL1	2034	8,080,000	5.00	2.94*	HW7
2025	5,155,000	5.00	1.96	HM9	2035	8,495,000	5.00	3.04*	HX5
2026	5,415,000	5.00	2.10	HN7	2036	8,930,000	5.00	3.10*	HY3
2027	5,690,000	5.00	2.21	HP2	2037	9,385,000	5.00	3.16*	HZ0
2028	5,985,000	5.00	2.25	HQ0	2038	9,865,000	5.00	3.21*	JA3

$57,470,000 5.00% Series 2018A Term Bonds due August 1, 2043 - Yield‡: 3.38%* CUSIP No.† 79730CJB1
$57,820,000 5.25% Series 2018A Term Bonds due August 1, 2047 - Yield‡: 3.39%* CUSIP No.† 79730CJC9

* Yield assumes a par call on August 1, 2028.
‡ Reoffering yields are furnished by the Underwriters. Neither the Authority nor the City takes any responsibility for the accuracy thereof.
† Copyright 2018, American Bankers Association. CUSIP data are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. ("CUSIP Service Bureau"). Such CUSIP data are provided only for the convenience of the reader and are not intended to create a database and do not serve in any way as a substitute for the services and information provided by the CUSIP Service Bureau. CUSIP is a registered trademark of the American Bankers Association. The City, the Authority, the Corporation, and the Underwriters do not assume any responsibility for the accuracy of any CUSIP data set forth herein or for any changes or errors in such data.

No dealer, broker, salesperson, or other person has been authorized by the City, the Authority, or the Corporation to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the City, the Authority, or the Corporation. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2018 Bonds by a person in any jurisdiction in which it is unlawful for such person to make an offer, solicitation, or sale.

This Official Statement is not a contract with the purchasers of the 2018 Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth herein has been furnished by the City or otherwise derived from other sources that are believed to be reliable including, without limitation, the San Diego County Water Authority and The Metropolitan Water District of Southern California. The Underwriters have provided the following sentence for inclusion in this Official Statement: the Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City, the Authority, the Corporation, or any other parties described herein since the date hereof. All summaries of the 2018 Bonds, the Indenture, the Master Installment Purchase Agreement, the 2018 Supplement, the Assignment Agreement, and other documents summarized herein are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions.

This Official Statement is submitted in connection with the issuance of the 2018 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The City maintains a website that includes investor information at http://www.sandiego.gov/investorinformation. However, the information presented at such website is not part of this Official Statement, is not incorporated by reference herein, and should not be relied upon in making an investment decision with respect to the 2018 Bonds.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2018 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE 2018 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

CITY OF SAN DIEGO

Mayor
Kevin L. Faulconer

City Council
(Also serves as Board of Commissioners of the Public Facilities Financing Authority of the City of San Diego)

Georgette Gómez, City Council President (*District 9*)
Barbara Bry, City Council President Pro Tem (*District 1*)
Jennifer Campbell (*District 2*)
Chris Ward (*District 3*)
Monica Montgomery (*District 4*)
Mark Kersey (*District 5*)
Chris Cate (*District 6*)
Scott Sherman (*District 7*)
Vivian Moreno (*District 8*)

City Attorney
Mara W. Elliott

City Officials

Kris Michell, *Chief Operating Officer*
Stacey LoMedico, *Assistant Chief Operating Officer*
Rolando Charvel, *Chief Financial Officer*
Gail R. Granewich, *City Treasurer*
Kyle Elser, *Interim City Auditor*
Tracy McCraner, *City Comptroller and Financial Management Director*
Andrea Tevlin, *Independent Budget Analyst*
Elizabeth S. Maland, *City Clerk*
Johnnie Perkins, *Deputy Chief Operating Officer for Infrastructure/Public Works*
Matthew Vespi, *Interim Director of Public Utilities*

SPECIAL SERVICES

Bond and Disclosure Counsel
Hawkins Delafield & Wood LLP
Los Angeles, California

Municipal Advisor
KNN Public Finance, a Limited Liability Company
Oakland, California

Trustee
U.S. Bank National Association
Los Angeles, California

SUMMARY OF THE OFFERING

This summary is subject in all respects to more complete information contained in this Official Statement and should not be considered a complete statement of the facts material to making an investment decision. The offering of the 2018 Bonds to potential investors is made only by means of the entire Official Statement, including the cover page, the inside cover page, and the Appendices, and other documents available for review and to which reference is herein made. Capitalized terms used in this summary and not otherwise defined have the meanings given to such terms in this Official Statement.

Issuer:	The Public Facilities Financing Authority of the City of San Diego (the "Authority").
Bonds Offered:	$243,180,000 aggregate principal amount of the Authority's Subordinated Water Revenue Bonds, Series 2018A (the "2018 Bonds").
Interest Payment Dates:	Interest on the 2018 Bonds will be payable semiannually on each February 1 and August 1, commencing on February 1, 2019.
Security and Sources of Payment:	The following is qualified in all respects by the information in this Official Statement under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS" and the documents referenced under such caption. The City, pursuant to a Master Installment Purchase Agreement with the San Diego Facilities and Equipment Leasing Corporation (the "Corporation"), will make 2018 Subordinated Installment Payments. The Corporation will assign such payments to the Authority pursuant to the Assignment Agreement. The 2018 Subordinated Installment Payments will be in amounts that are sufficient to pay the principal of and interest on the 2018 Bonds. The 2018 Subordinated Installment Payments are payable solely from Net System Revenues, on a basis that is subordinate to the right of payment by the City of its Senior Obligations under the Master Installment Purchase Agreement and on parity with the right of payment by the City of its other Subordinated Obligations under the Master Installment Purchase Agreement. Net System Revenues for any Fiscal Year are the System Revenues for such Fiscal Year less the Maintenance and Operation Costs of the Water System for such Fiscal Year. System Revenues are all income, rents, rates, fees, charges, and other moneys derived from the ownership and operation of the Water System. Notwithstanding any contributions from the Sewer Revenue Fund to finance Pure Water Program components of the Water System CIP, amounts from the Sewer Revenue Fund are not available to pay principal of and interest on the 2018 Bonds. See "WATER SYSTEM CAPITAL

IMPROVEMENT PLAN – Capital Improvement Financing Plan."

The 2018 Bonds will be secured by the Indenture by and between the Authority and U.S. Bank National Association, as Trustee. The Authority will transfer, convey, and assign to the Trustee, for the benefit of the owners of the 2018 Bonds, all of the Authority's right to receive the 2018 Subordinated Installment Payments from the City.

Rate Covenant: The City has covenanted in the Master Installment Purchase Agreement to fix, prescribe, and collect rates and charges for the City's water service, which will be at least sufficient to yield the greater of (i) Net System Revenues sufficient to pay during each Fiscal Year all Obligations, including the 2018 Subordinated Installment Payments, payable in each Fiscal Year, or (ii) Adjusted Net System Revenues during each Fiscal Year equal to 120% of the Adjusted Debt Service (which does not include debt service on Subordinated Obligations such as the 2018 Subordinated Installment Obligation) for such Fiscal Year. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – Rate Covenant."

No Debt Service Reserve Fund: No debt service reserve fund will be created or funded to secure the 2018 Bonds.

Additional Obligations: The City may incur additional Obligations, payments with respect to which will be senior to, or on parity with, the City's obligation to make the 2018 Subordinated Installment Payments, subject to satisfaction of the conditions specified in the Master Installment Purchase Agreement.

Use of Proceeds: The net proceeds of the 2018 Bonds will be applied to (i) finance capital improvements to the Water System, (ii) pay all of the outstanding principal of commercial paper notes of the Authority, which were used initially to finance a portion of the capital improvements to the Water System, and (iii) pay the costs of issuance incurred in connection with the issuance of the 2018 Bonds.

Redemption: The 2018 Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See "DESCRIPTION OF THE 2018 BONDS – Redemption of 2018 Bonds" herein.

Authorized Denominations: The 2018 Bonds will be issued as registered bonds in denominations of $5,000 and integral multiples thereof.

Form and Depository: The 2018 Bonds will be delivered solely in registered form under a global book-entry system through the facilities of DTC.

Tax Status: For information on the tax status of the 2018 Bonds, see the

	italicized language at the top of the cover page of this Official Statement and "TAX MATTERS" herein.
Continuing Disclosure:	The City will execute a Continuing Disclosure Certificate to assist the Underwriters in complying with the provisions of Rule 15c2-12, as further described in "CONTINUING DISCLOSURE" herein. The form of Continuing Disclosure Certificate that the City will execute is attached as APPENDIX C hereto.
Ratings:	Fitch: "AA-" (with a stable outlook) Moody's: "Aa3" (with a stable outlook) See "RATINGS" herein.

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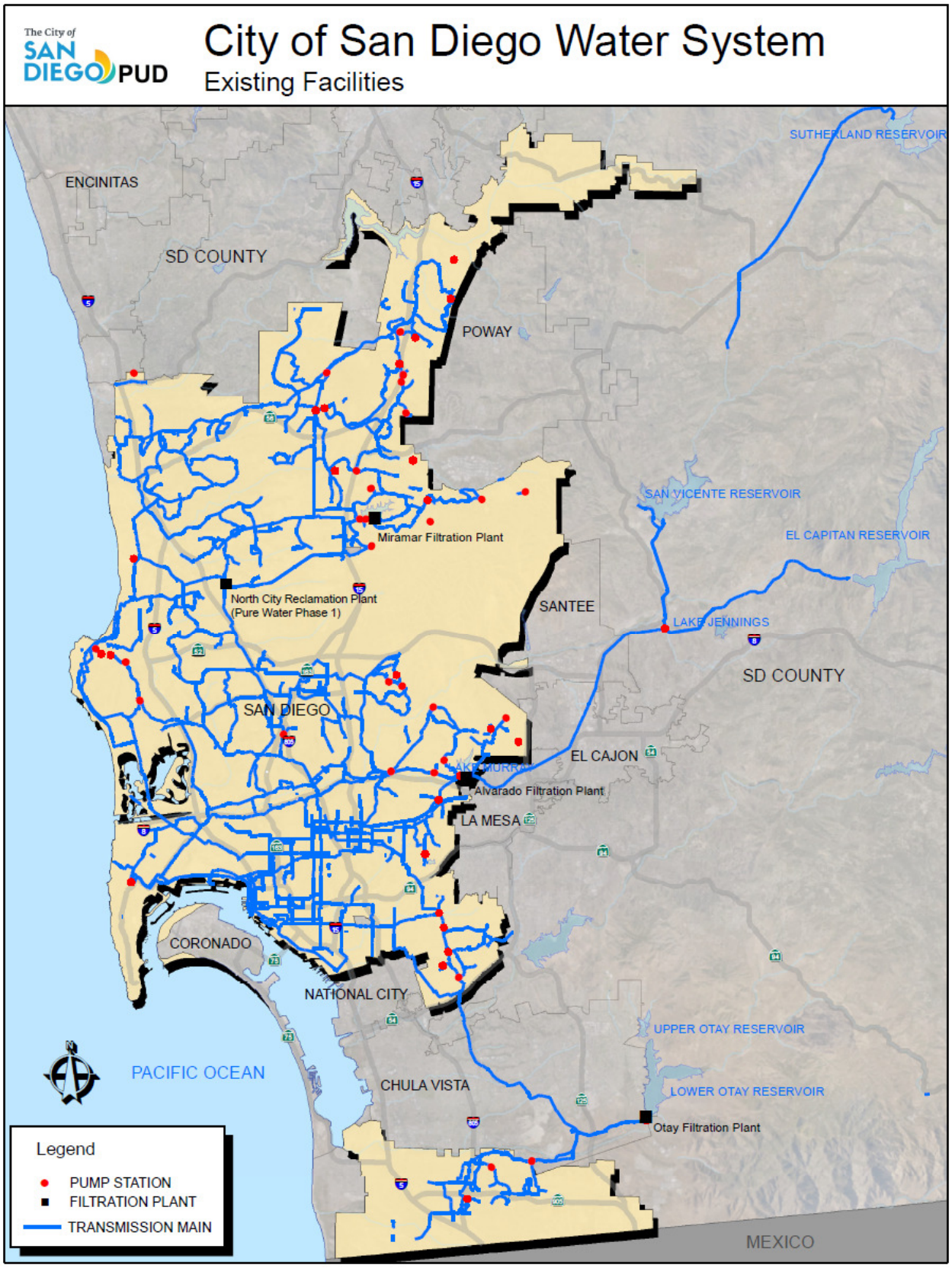
The City of SAN DIEGO PUD
City of San Diego Water System
Existing Facilities
SUTHERLAND RESERVOIR
ENCINITAS
SD COUNTY
POWAY
SAN VICENTE RESERVOIR
EL CAPITAN RESERVOIR
Miramar Filtration Plant
North City Reclamation Plant
(Pure Water Phase 1)
SANTEE
LAKE JENNINGS
SD COUNTY
SAN DIEGO
EL CAJON
LAKE MURRAY
Alvarado Filtration Plant
LA MESA
CORONADO
NATIONAL CITY
UPPER OTAY RESERVOIR
PACIFIC OCEAN
CHULA VISTA
LOWER OTAY RESERVOIR
Otay Filtration Plant
MEXICO
Legend
PUMP STATION
FILTRATION PLANT
TRANSMISSION MAIN

OFFICIAL STATEMENT

$243,180,000
PUBLIC FACILITIES FINANCING AUTHORITY OF
THE CITY OF SAN DIEGO
SUBORDINATED WATER REVENUE BONDS, SERIES 2018A
(Payable Solely From Subordinated Installment Payments
Secured by Net System Revenues of the Water Utility Fund)

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page, the inside cover page and appendices hereto and the documents described herein. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to and summaries of the laws of the State of California and any documents, reports, and other instruments referred to herein do not purport to be complete and such references are qualified in their entirety by reference to each such law, document, report, or instrument. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Indenture or the Master Installment Purchase Agreement, each as defined herein. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture" and "– Master Installment Purchase Agreement."

General

The $243,180,000 Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Bonds, Series 2018A (Payable Solely From Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the "2018 Bonds") are being issued by the Public Facilities Financing Authority of the City of San Diego (the "Authority") pursuant to Article 4 (commencing with Section 6584, known as the Marks-Roos Local Bond Pooling Act of 1985) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Government Code") and the Indenture, dated as of January 1, 2009 (the "Original Indenture"), as amended and supplemented by the First Supplemental Indenture, dated as of June 1, 2009, the Second Supplemental Indenture, dated as of June 1, 2010, the Third Supplemental Indenture, dated as of April 1, 2012, the Fourth Supplemental Indenture, dated as of June 1, 2016, the Fifth Supplemental Indenture, dated as of January 1, 2017, and the Sixth Supplemental Indenture, dated as of December 1, 2018 (the "Sixth Supplemental Indenture"), each by and between the Authority and U.S. Bank National Association, as successor trustee (the "Trustee"). The Original Indenture as heretofore amended and supplemented, including by the Sixth Supplemental Indenture, is referred to herein as the "Indenture."

The proceeds of the 2018 Bonds will be used to (a) finance capital improvements to the Water System (the "Water System") of The City of San Diego (the "City"), (b) pay all of the outstanding principal of the Subordinated Water Revenue Commercial Paper Notes, Series A (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) the ("Series A Commercial Paper Notes") and the Subordinated Water Revenue Commercial Paper Notes, Series B (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the "Series B Commercial Paper Notes" and, together with the Series A Commercial Paper Notes, the "Commercial Paper Notes") of the Authority, which were issued to initially finance a portion of the capital improvements to the Water System, and (c) pay the costs of issuance incurred in connection with the issuance of the 2018 Bonds. See "PLAN OF FINANCE."

Changes From the Preliminary Official Statement

In addition to updating this Official Statement to reflect the pricing information for the Bonds, including the interest rates, maturities, and redemption provisions, the annual debt service schedule (Table 1), and Pension Plan membership numbers (Table 25), the following paragraphs are being added:

The Water System is subject to various federal, state, and local laws and regulations. See "WATER SYSTEM REGULATORY REQUIREMENTS." The City is in compliance with all such laws and regulations, including those relating to drinking water quality (which is highly regulated) and those which require an identification and replacement of user service lines as described below. The City does not expect that continued compliance with such laws, including those relating to the replacement of user service lines, will result in additional material financial costs to the Water System.

California Health and Safety Code Section 116885 required the City to submit the results of an inventory of lead user service lines to the California State Water Resources Control Board ("SWRCB") by July 1, 2018. User service lines includes pipes, tubing, and fittings connecting the water main (distribution) lines to an individual water meter or service connection. The City completed the inventory of user service lines in accordance with applicable law. The City identified approximately 281,000 service lines, of which 192,507 service lines and 15,863 fittings are of unknown material. To date, no service lines have been identified as being made of lead. Under State law, the City must provide to the SWRCB by July 1, 2020 a timeline for replacement of both service lines that are known to contain lead and service lines that are of an unknown material. The City is preparing a plan with the SWRCB's Division of Drinking Water to identify the material used in those service lines that are currently categorized as unknown. This should significantly minimize the number of currently unknown service lines that may be made of lead and, if they are lead, are required to be replaced.

There are three types of materials used for water main lines in the City. These materials are cast iron, PVC, and asbestos cement. The City believes that lead user service lines, if any, would very likely be connected to cast iron main lines, and not to main lines made of PVC or asbestos cement. The City estimates that there are approximately 20 miles of cast iron main lines that remain to be replaced. There are approximately 3200 service lines connected to all of these cast iron main lines. The City's current capital and funding plans include the replacement of these cast iron main lines and all service lines (and associated fittings) attached to such main lines. The City expects to award contracts for the replacement of the cast iron main lines by 2021, which replacement is expected to be completed 12-18 months after such contracts are awarded. The funding for the replacement of the cast iron main lines and the associated service lines (approximately 3200) (and fittings) to be undertaken in Fiscal Year 2019 has been included in the Fiscal Year 2019 budget, and the funding needed in later Fiscal Years is included in the rate cases and projections for those fiscal years. See "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Description of Major Projects" and the line titled "Pipelines" in Table 11 for current funding projections for the pipeline replacement, including cast iron pipelines. The funding amounts budgeted in Fiscal Year 2019 and projected to be needed in subsequent fiscal years for the pipeline replacement program remain unchanged from the amounts set forth in the Preliminary Official Statement. The City does not expect that the replacement of any user service lines will result in additional material financial costs to the Water System.

The 2018 Bonds

The 2018 Bonds will bear interest at the respective rates set forth on the inside cover page hereof. Interest on the 2018 Bonds will accrue from the date of delivery of the 2018 Bonds and is payable on February 1 and August 1 of each year, commencing on February 1, 2019.

The 2018 Bonds are being issued only in fully-registered form in denominations of $5,000 and any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2018 Bonds. Ownership interests in the 2018 Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the 2018 Bonds, the principal, the redemption premium, if any, and interest on the 2018 Bonds will be made as described in "APPENDIX D – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM."

Security and Sources of Payment for the 2018 Bonds

The 2018 Bonds are Subordinated Bonds (as defined herein) under the Indenture. The Indenture provides for the issuance of Senior Bonds (as defined herein) that are secured by a pledge of Revenues and the issuance of Subordinated Bonds that are secured by a pledge of Subordinated Revenues. "Revenues" consist of Installment Payments that are Parity[**] Obligations received by or due to the San Diego Facilities and Equipment Leasing Corporation (the "Corporation") pursuant to the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009 (the "Original Master Installment Purchase Agreement"), by and between the City and the Corporation, as amended and supplemented, including as amended by the First Amendment to Amended and Restated Master Installment Purchase Agreement, dated as of November 14, 2018, each by and between the City and the Corporation, as supplemented by the Collateral Agency, Account and Assignment Agreement, dated as of November 14, 2018 (the "Collateral Agency Agreement"), by and among the City, the Corporation, the Authority, the United States Environmental Protection Agency (the "EPA"), acting by and through the Administrator of the Environmental Protection Agency (the "WIFIA Lender"), and U.S. Bank National Association as collateral agent (the "Collateral Agent") under the Collateral Agency Agreement and as Trustee under the Indenture, and as supplemented by the 2018 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of December 1, 2018 (the "2018 Supplement" and, together with the Original Master Installment Purchase Agreement, as previously amended and supplemented, the "Master Installment Purchase Agreement"), by and between the City and the Corporation. "Subordinated Revenues" consist of Installment Payments that are Subordinated Obligations (such Installment Payments being "Subordinated Installment Payments") received by or due to the Corporation pursuant to the Master Installment Purchase Agreement.

The 2018 Bonds are limited obligations of the Authority secured by Subordinated Revenues and other assets pledged therefor under the Indenture. The Subordinated Revenues will consist primarily of 2018 Subordinated Installment Payments (as defined herein) to be made by the City to the Corporation under the 2018 Supplement. The 2018 Subordinated Installment Payments will be assigned by the Corporation to the Authority pursuant to the Assignment Agreement, dated as of December 1, 2018 (the "Assignment Agreement"), by and between the Corporation and the Authority, which provides for the granting, sale, assignment, and transfer by the Corporation to the Authority, for the benefit of the Owners of the 2018 Bonds, all of the Corporation's right, title, and interest in and to the 2018 Supplement. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS."

The Master Installment Purchase Agreement provides for the payment by the City of Senior Obligations (as defined herein) and Subordinated Obligations (as defined herein) in amounts sufficient to

[**] The Master Installment Purchase Agreement uses the term "Parity" in connection with obligations whose right of payment is not subordinated to the right of payment of any other obligations. For purposes of the forepart of this Official Statement, the term "Senior" will be used in place of "Parity" to clarify that the related obligations have a first priority lien on Net System Revenues and that such lien is senior to the lien of Subordinated Obligations on Net System Revenues.

make payments of the principal of and interest on Bonds (as defined herein) of the Authority. The 2018 Supplement provides for the payment by the City of Subordinated Installment Payments (the "2018 Subordinated Installment Payments"), which are Subordinated Obligations under the Master Installment Purchase Agreement, in amounts sufficient to make payments of the principal of and interest on the 2018 Bonds. The 2018 Subordinated Installment Payments securing payment of the 2018 Bonds are payable from Net System Revenues (as defined herein) on a basis that is subordinate to the right of payment by the City of its Senior Obligations under the Master Installment Purchase Agreement and on parity with the right of payment by the City of its other Subordinated Obligations under the Master Installment Purchase Agreement. See "Outstanding Senior Obligations and Subordinated Obligations" below. Notwithstanding any contributions from the Sewer Revenue Fund to finance Pure Water Program components of the Water System CIP, amounts from the Sewer Revenue Fund are not available to pay principal of and interest on the 2018 Bonds. See "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Financing Plan."

Pursuant to the Collateral Agency Agreement, Net System Revenues are deposited into accounts established thereunder for the purposes set forth therein, including, the payment of amounts due under Senior Obligations and/or Subordinated Obligations, as the context requires (collectively, the "Secured Obligations"), and the Collateral Agent is appointed agent to enforce the rights of holders of or lenders under the Secured Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS" and "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Collateral Agency Agreement."

The 2018 Bonds are limited obligations of the Authority payable solely from and secured solely by the Subordinated Revenues pledged therefor and amounts on deposit in the Subordinated Bonds Payment Fund established under the Indenture. The obligation of the City to make 2018 Subordinated Installment Payments under the 2018 Supplement does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the full faith and credit of the Authority, the City, the County of San Diego (the "County"), the State of California (the "State"), or any political subdivision of the State nor the taxing power of the City, the County, the State, or any political subdivision of the State is pledged to the payment of the principal of or interest on the 2018 Bonds. The Authority has no taxing power. Neither the 2018 Bonds nor the obligation of the City to make 2018 Subordinated Installment Payments constitutes an indebtedness of the Authority, the City, the County, the State, or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation or restriction.

Rate Covenant

The City has covenanted in the Master Installment Purchase Agreement to fix, prescribe, and collect rates and charges for the City's water service, (as described below, the "Water Service"), which will be at least sufficient to yield the greater of (i) Net System Revenues sufficient to pay during each "Fiscal Year" (being the period that begins on July 1 of each year and ends on June 30 of the following year) all Obligations (as defined herein), including the 2018 Subordinated Installment Payments, payable in such Fiscal Year, or (ii) Adjusted Net System Revenues (as defined herein) during each Fiscal Year equal to 120% of the Adjusted Debt Service (which does not include debt service on Subordinated Obligations such as the 2018 Subordinated Installment Obligation) for such Fiscal Year. The Water Service rendered by the City includes the collection, conservation, production, storage, treatment, transmission, furnishing, and distribution services made available or provided by the City's water system (the "Water System"). In addition, pursuant to the agreements executed by the City in connection with certain of the herein referenced Senior SRF Loans, the City has covenanted to ensure that net revenues are equal to at least 1.1 times maximum annual debt service on all Obligations in each Fiscal Year. Pursuant

to the WIFIA Loan (as defined herein), the City has covenanted to ensure Net System Revenues are equal to at least one hundred ten percent (110%) of the debt service with respect to all Outstanding Obligations for such Fiscal Year. The covenants in the agreements for the Senior SRF Loans and the WIFIA Loan are not made for the benefit of the Owners of the 2018 Bonds and Owners of the 2018 Bonds do not have a right to enforce such covenants. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – Rate Covenant" and "WATER SYSTEM FINANCIAL OPERATIONS – Rate Stabilization Fund; Other Funds and Accounts." For information on the possible limitation on the City's ability to comply with the rate covenant as a consequence of Proposition 218 (as defined herein), see "RISK FACTORS – Rate-Setting Process Under Proposition 218" and "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIIIC" and "– Article XIIID."

Redemption of the 2018 Bonds

The 2018 Bonds are subject to redemption prior to maturity as described herein. See "DESCRIPTION OF THE 2018 BONDS – Redemption of 2018 Bonds."

No Debt Service Reserve Fund for the 2018 Bonds

No debt service reserve fund will be created or funded to secure the 2018 Bonds. Debt service reserve funds were created in connection with the issuance of certain of the Authority's Bonds and the incurrence of certain of the City's Obligations. Amounts on deposit in, or to be on deposit in, such debt service reserve funds are not available to secure the 2018 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – No Debt Service Reserve Fund for the 2018 Bonds."

Outstanding Senior Obligations and Subordinated Obligations

The 2018 Subordinated Installment Payments securing payment of the 2018 Bonds are payable from Net System Revenues on a basis that is subordinate to the right of payment by the City of Senior Obligations incurred and to be incurred under the Master Installment Purchase Agreement. As of November 15, 2018, Senior Obligations consisted of $78,332,490 principal amount of loans from the Drinking Water State Revolving Fund (the "Senior SRF Loans"). There are no other Outstanding Senior Obligations. As of November 15, 2018, there was $812,654,000 aggregate principal amount of Outstanding Subordinated Obligations that are payable from Net System Revenues on parity with the 2018 Subordinated Installment Payments, which includes $205,889,000 aggregate principal amount of Commercial Paper Notes. Under the Indenture, the aggregate principal amount of Commercial Paper Notes Outstanding at any time may not exceed $250,000,000. The Outstanding Subordinated Obligations principal amount does not include the City's borrowing of up to $614 million (the "WIFIA Loan") from the EPA pursuant to the Water Infrastructure Finance and Innovation Act ("WIFIA") and the terms of the WIFIA Loan Agreement (the "WIFIA Loan Agreement") to finance certain improvements to the Water System in connection with the herein described Pure Water Program as the City has not yet requested disbursements of amounts under the WIFIA Loan. In connection with the closing of the WIFIA Loan on November 14, 2018, Kroll Bond Rating Agency and Fitch Ratings Inc. ("Fitch") assigned to the WIFIA Loan their ratings of "AA" and "AA-," respectively, each with a stable outlook. As used herein, the term "Subordinated Bonds" means the 2018 Bonds and any other Bonds secured by a pledge of Subordinated Revenues on parity with such 2018 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – Senior Obligations" and "– Subordinated Obligations" and "WATER SYSTEM FINANCIAL OPERATIONS – Outstanding Indebtedness."

Additional Obligations

Pursuant to the Master Installment Purchase Agreement, the City may incur additional Obligations, payments with respect to which will be senior to, or on parity with, the City's obligation to make 2018 Subordinated Installment Payments, subject to satisfaction of the conditions specified in the Master Installment Purchase Agreement. In addition, the loan agreements executed by the City in connection with certain of the Senior SRF Loans and the WIFIA Loan provide for additional requirements for the incurrence of additional Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – Issuance of Additional Obligations Under the Master Installment Purchase Agreement," "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Financing Plan," and "WATER SYSTEM FINANCIAL OPERATIONS – Anticipated Additional Obligations." Additional obligations are expected to include additional SRF loans received from the SWRCB, payments with respect to which are expected to be senior in right of payment to the City's obligation to make 2018 Subordinated Installment Payments.

The City of San Diego

The City, with a total population of approximately 1.4 million as of January 1, 2018 and a land area of approximately 325 square miles, is the eighth largest city in the nation by population, and the second largest city by population (and land area) in California. The City is the county seat for the County of San Diego. Major components of the City's diversified economy include defense, tourism, biotechnology/biosciences, financial and business services, software and telecommunications. The City's economic base is also anchored by higher education and major scientific research institutions, including the University of California, San Diego, San Diego State University, Scripps Research Institute, the Salk Institute for Biological Studies, and the San Diego Supercomputer Center.

The City was incorporated in 1850. The City operates under and is governed by the laws of the State of California (the "State") and the City Charter, as periodically amended since its adoption by the electorate in 1931. The City has been operating under a "Strong Mayor" form of government since January 1, 2006. Under the Strong Mayor form of government, the Mayor is the Chief Executive Officer of the City and has direct oversight over all City functions and services except for the City Council, Personnel, City Clerk, Independent Budget Analyst, Ethics Commission, City Attorney and City Auditor's departments.

The Water System

The City owns the Water System and operates the Water System through the Public Utilities Department (the "Department"). The City has expanded the Water System from time to time to provide safe, reliable water in an efficient, cost-effective, and environmentally responsible manner. See "WATER SYSTEM ORGANIZATION AND MANAGEMENT," "WATER SYSTEM SERVICE AREA AND FACILITIES," "WATER SUPPLY," "WATER SYSTEM REGULATORY REQUIREMENTS," "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM," and "WATER SYSTEM FINANCIAL OPERATIONS."

The Corporation

The Corporation is a nonprofit charitable corporation duly organized and existing under and by virtue of the laws of the State. The Corporation was organized to acquire, lease, and/or sell to the City real and personal property to be used in the municipal operations of the City. The Corporation was formed at the request of the City to assist in financings such as the installment purchase financing described herein and is governed by its own Board of Directors. The Corporation is prohibited from

engaging in any business or activities other than those incidental to its sole purpose, and no part of its net earnings may accrue to the benefit of any person or entity other than the City.

The Corporation has no liability to the owners or Beneficial Owners of any 2018 Bonds, and has pledged none of its moneys, funds or assets to any Installment Payments including, without limitation, the 2018 Subordinated Installment Payments or any payments under the 2018 Bonds. Pursuant to the Assignment Agreement, the Corporation has assigned its right to receive the 2018 Subordinated Installment Payments to the Authority.

The Authority

The Authority is a California joint exercise of powers authority established pursuant to the Third Amended and Restated Joint Exercise of Powers Agreement, dated as of January 1, 2013, by and among the City, the City solely in its capacity as the designated successor agency (the "Successor Agency") to the former Redevelopment Agency of the City of San Diego (the "Former RDA"), and the Housing Authority of the City of San Diego (the "Housing Authority"). The Authority is organized, in part, to finance certain public capital improvements of the City, the Successor Agency or the Housing Authority.

Except as provided in the Indenture, the Authority has no liability to the owners or Beneficial Owners of any of the 2018 Bonds and has pledged none of its moneys, funds or assets toward the payment of any amount due in connection with the 2018 Bonds. The Indenture provides that the Authority transfers, conveys and assigns to the Trustee, for the benefit of the Owners, all of the Authority's rights under the Master Installment Purchase Agreement, including the right to receive the 2018 Subordinated Installment Payments from the City, the right to receive any proceeds of insurance maintained thereunder or any condemnation award rendered with respect to the related Components, and the right to exercise any remedies provided therein in the event of a default by the City under the Master Installment Purchase Agreement.

The Authority is governed by its own Board of Commissioners consisting of the members of the San Diego City Council. The Authority is dependent upon the officers and employees of the City to administer its programs.

Forward-Looking Statements

Certain statements, tables and charts included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements, tables and charts are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," "project" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although such expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The Authority is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

PLAN OF FINANCE

The net proceeds of the 2018 Bonds will be applied to (a) finance capital improvements to the Water System, (b) pay all of the outstanding principal of the Commercial Paper Notes of the Authority, which were issued to initially finance a portion of the capital improvements to the Water System, and

(c) pay the costs of issuance incurred in connection with the issuance of the 2018 Bonds. To facilitate payment of the Commercial Paper Notes, on the date of issuance of the 2018 Bonds, a portion of the proceeds of the sale of the 2018 Bonds will be deposited with the issuing and paying agent of the Commercial Paper Notes and held for payment of the Commercial Paper Notes as they mature. Amounts on deposit with the issuing and paying agent of the Commercial Paper Notes will not be available for the payment of debt service on the 2018 Bonds.

The following tables set forth the projects funded with the proceeds of the Commercial Paper Notes as part of the Water System CIP and the projected projects to be funded with the proceeds of the 2018 Bonds. See "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Description of Major Projects."

Project Type	**Capital Expenditures Funded by Commercial Paper Notes**
Pure Water Program	$28,047,000
Water Pipelines – Distribution	76,513,000
Water Pipelines – Transmission	29,461,000
Water Storage Facilities	1,970,000
Water Treatment Plants	53,970,000
Pump Stations	6,308,000
Recycled Water	620,000
Other Projects[(1)]	8,724,000
Costs of Issuance of Commercial Paper Notes	276,000
Total	$205,889,000

(1) Includes the Chollas building, Groundwater Asset Development Program, and Bayview Reservoir Solar Project.

Project Type	**Projected Near-Term Capital Expenditures Funded by 2018 Bonds**
Water Pipelines – Distribution	$20,845,000
Water Pipelines – Transmission	25,640,000
Water Storage Facilities	3,907,000
Water Treatment Plants	11,200,000
Pump Stations	3,620,000
Other Projects[(1)]	8,899,000
Total	$74,111,000

(1) Includes the Chollas building, Groundwater Asset Development Program, and Bayview Reservoir Solar Project.

ESTIMATED SOURCES AND USES OF BOND PROCEEDS

The following table details the sources and uses of the proceeds of the sale of the 2018 Bonds and other available funds.

Sources:	
Principal Amount of the 2018 Bonds	$243,180,000.00
Net Original Issue Premium	37,512,651.80
Total Sources	$280,692,651.80
Uses:	
Deposit to Acquisition Fund	$ 74,111,000.00
Pay Commercial Paper Notes	205,889,000.00
Pay Costs of Issuance[(1)]	692,651.80
Total Uses	$280,692,651.80

(1) Costs of Issuance for the 2018 Bonds, including all eligible costs of issuing the 2018 Bonds, including fees of Bond Counsel, Disclosure Counsel, the Municipal Advisor, the Trustee, rating agencies and the printer, the underwriters' discount, and other miscellaneous expenses.

DESCRIPTION OF THE 2018 BONDS

General

The 2018 Bonds will be issued as fully-registered bonds in denominations of $5,000 and any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2018 Bonds. Ownership interests in the 2018 Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the 2018 Bonds, principal of, redemption premium, if any, and interest on the 2018 Bonds will be made as described in "APPENDIX D – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM."

The 2018 Bonds will bear interest at the respective rates set forth on the inside cover page hereof. Interest on the 2018 Bonds will accrue from the date of delivery of the 2018 Bonds and is payable on February 1 and August 1 of each year, commencing on February 1, 2019. Interest on the 2018 Bonds shall be calculated on the basis of a 360-day year, comprised of twelve 30-day months. Interest coming due on a date that is not a Business Day shall be payable on the immediately following Business Day.

Redemption of 2018 Bonds

Optional Redemption. The 2018 Bonds maturing on and after August 1, 2029 shall be subject to redemption, in whole or in part, at the option of the Authority (upon the direction of the City), on or after August 1, 2028, at any time, from and to the extent of prepaid 2018 Subordinated Installment Payments paid pursuant to the 2018 Supplement, at a redemption price equal to the principal amount of 2018 Bonds called for redemption, together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The 2018 Term Bonds maturing on August 1, 2043 are subject to mandatory sinking fund redemption, with sinking account payments payable on August 1 in each of the years, at a redemption price of par, plus interest accrued to the date fixed for redemption, in the principal amounts as follows:

2018 Bonds Maturing August 1, 2043

Sinking Fund Payment Dates (August 1)	Principal Amount
2039	$10,375,000
2040	10,905,000
2041	11,465,000
2042	12,055,000
2043†	12,670,000

† Final maturity.

The 2018 Term Bonds maturing on August 1, 2047 are subject to mandatory sinking fund redemption, with sinking account payments payable on August 1 in each of the years, at a redemption price of par, plus interest accrued to the date fixed for redemption, in the principal amounts as follows:

2018 Bonds Maturing August 1, 2047

Sinking Fund Payment Dates (August 1)	Principal Amount
2044	$13,340,000
2045	14,055,000
2046	14,815,000
2047†	15,610,000

† Final maturity.

The Authority may credit against any sinking account payment requirement Term Bonds or portions thereof which are of the same maturity as the Term Bonds subject to redemption and which, prior to said date, have been purchased with funds, other than moneys in a Sinking Account, at public or private sale or redeemed and cancelled by the Authority and not theretofore applied as a credit against any mandatory sinking account payment requirement.

Notice of Redemption. So long as DTC is acting as securities depository for the 2018 Bonds, notice of redemption, containing the information required by the Indenture, will be mailed by first class mail, postage prepaid, by the Trustee to DTC (not to the Beneficial Owners of any 2018 Bonds designated for redemption) not more than 60 days nor less than 30 days prior to the redemption date and shall state the date of such notice, the redemption price (including the name and appropriate address of the Trustee), and, in the case of 2018 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said 2018 Bonds the principal amount thereof and, in the case of a 2018 Bond to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after such redemption date, interest thereon shall cease to accrue, and shall require that such 2018 Bonds be then surrendered at the address of the Trustee specified in the redemption notice. Notice of redemption may be conditioned upon the occurrence of future events, including but not limited to the issuance of refunding bonds, and may be given and rescinded by the Trustee prior to the redemption date, upon written instruction of the Authority.

Selection for Redemption. If less than all of the outstanding 2018 Bonds are to be redeemed prior to maturity, the Authority (at the direction of the City) shall select the specific maturity and interest rate (or maturities of bonds and interest rates) of 2018 Bonds, or portions thereof equal to $5,000 or any integral multiple thereof, including any specified reduction in any sinking account payments required to

be made with respect to such outstanding 2018 Bonds, to be redeemed. If less than all of the 2018 Bonds of like maturity are to be redeemed, the Trustee will select the particular 2018 Bonds or portions of 2018 Bonds to be redeemed at random in such manner as the Trustee in its discretion may deem fair and appropriate.

Effect of Redemption. If notice of redemption has been duly given as provided in the Indenture and money for the payment of the redemption price of the 2018 Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice, the 2018 Bonds shall become due and payable, and from and after the date so designated, interest on the 2018 Bonds so called for redemption shall cease to accrue, and the Owners of such 2018 Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof. The insufficiency of any such notice shall not affect the sufficiency of the proceedings for redemption. If said moneys are not so available on the redemption date, such 2018 Bonds or portions thereof will continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption. If there is selected for redemption a portion of a 2018 Bond, the Authority will execute and the Trustee for that 2018 Bond will authenticate and deliver, upon the surrender of such 2018 Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of the 2018 Bond so surrendered, a 2018 Bond of like maturity and interest rate in any authorized denomination.

SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS

Pledge of Subordinated Revenues; Subordinated Installment Payments

Pursuant to the Indenture, the 2018 Bonds are limited obligations of the Authority payable solely from the Subordinated Revenues and amounts on deposit in the Subordinated Bonds Payment Fund established under the Indenture. The term "Subordinated Revenues," as applied to the 2018 Bonds, means all 2018 Subordinated Installment Payments received by or due to be paid to the Corporation pursuant to the 2018 Supplement and the interest or profits from the investment of money in the Subordinated Bonds Payment Fund pursuant to the Indenture. The 2018 Subordinated Installment Payments will be assigned by the Corporation to the Authority pursuant to the Assignment Agreement. To secure the pledge of the Subordinated Revenues, the Authority will transfer, convey, and assign to the Trustee, for the benefit of the Owners, all of the Authority's right to receive 2018 Subordinated Installment Payments from the City. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture."

The Water Utility Fund; Application of System Revenues

The City accounts for its water operations through an enterprise fund known as the "Water Utility Fund." The Water Utility Fund was established pursuant to an amendment to the City Charter effective February 11, 1963, and is accounted for separately from other funds of the City. The City has agreed and covenanted in the Master Installment Purchase Agreement that all System Revenues shall be received by the City in trust and shall be deposited when and as received in the Water Utility Fund, which fund the City agrees and covenants to maintain so long as any Obligations remain unpaid, and all moneys in the Water Utility Fund shall be so held in trust and applied and used solely in the amounts, at the times and only for the purposes specified below and in the following order of priority; provided that no amount shall be transferred on any date pursuant to any clause below until amounts sufficient for all the purposes specified under the prior clauses shall have been transferred or set aside; and provided further that in the event there are insufficient Net System Revenues to make all of the payments contemplated in any one clause below, then said transfers, deposits and payments directed by such clause shall be made as nearly as practicable, pro rata, based upon the respective unpaid principal amounts of the Obligations addressed by such clause:

First, the City shall pay from the Water Utility Fund directly or as otherwise required all Maintenance and Operation Costs of the Water System (as herein defined);

Second, on each "Senior Obligation Interest Funding Date" (being each Senior Obligation Installment Payment Date on which the Interest Portion is due and payable under the Master Installment Purchase Agreement as well as each date on which interest is due and payable on any Senior Obligation under any other Issuing Instrument) and on each other date on which the following amounts shall be due and payable, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in the Senior Obligations Interest Account of the Senior Obligations Payment Fund, the sum of (A) an amount equal to the interest due and payable on all Senior Obligations; plus (B) an amount equal to any continuing shortfall in transfers required to have been made to the Senior Obligations Interest Account on any preceding Senior Obligation Interest Funding Date;

Third, on each "Senior Obligation Principal Funding Date" (being each Senior Obligation Installment Payment Date on which the Principal Portion is due and payable under the Master Installment Purchase Agreement as well as each date on which principal or mandatory sinking fund redemptions are due and payable on any Senior Obligation under any other Issuing Instrument) and on each other date on which the following amounts shall be due and payable, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in the Senior Obligations Principal Account of the Senior Obligations Payment Fund, the sum of (A) an amount equal to the principal and mandatory sinking fund redemptions due and payable on all Senior Obligations; plus (B) an amount equal to any continuing shortfall in transfers required to have been made to the Senior Obligations Principal Account on any preceding Senior Obligation Principal Funding Date;

Fourth, on each Senior Obligation Interest Funding Date, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in any Senior Obligations Reserve Account (if any) the amount necessary so that the balance therein equals the applicable Senior Obligations Reserve Requirement; provided that in the event of any draw on a Reserve Fund Credit Facility held in any Senior Obligations Reserve Account, there shall be deemed a deficiency in such Senior Obligations Reserve Account until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount;

Fifth, on each "Subordinated Obligation Interest Funding Date" (being each Subordinated Obligation Installment Payment Date on which the Interest Portion is due and payable under the Master Installment Purchase Agreement as well as each date on which interest is due and payable on any Subordinated Obligation under any other Issuing Instrument) and on each other date on which the following amounts shall be due and payable, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in the Subordinated Obligations Interest Account of the Subordinated Obligations Payment Fund, the sum of (A) an amount equal to the interest due and payable on all Subordinated Obligations; plus (B) an amount equal to any continuing shortfall in transfers required to have been made to the Subordinated Obligations Interest Account on any preceding Subordinated Obligation Interest Funding Date;

Sixth, on each "Subordinated Obligation Principal Funding Date" (being each Subordinated Obligation Installment Payment Date on which the Principal Portion is due and payable under the Master Installment Purchase Agreement as well as each date on which principal or mandatory sinking fund redemptions are due and payable on any Subordinated Obligation under any other Issuing Instrument) and on each other date on which the following amounts shall be due and payable, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in the Subordinated Obligations Principal Account of the Subordinated Obligations Payment Fund, the sum of (A) an amount equal to the principal and mandatory sinking fund redemptions due and payable on all Subordinated

Obligations; plus (B) an amount equal to any continuing shortfall in transfers required to have been made to the Subordinated Obligations Principal Account on any preceding Funding Date; and

Seventh, on each Subordinated Obligation Interest Funding Date, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in any Subordinated Obligations Reserve Account (if any) the amount necessary so that the balance therein equals the applicable Subordinated Obligations Reserve Requirement; provided that in the event of any draw on a Reserve Fund Credit Facility held in any Subordinated Obligations Reserve Account, there shall be deemed a deficiency in such Subordinated Obligations Reserve Account until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount.

After the deposits described in the preceding paragraphs have been made, any amounts thereafter remaining in the Water Utility Fund may be used for any lawful purpose of the Water System. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Pledge of Net System Revenues; Payment of Installment Payments

The Master Installment Purchase Agreement provides for the payment by the City of Senior Obligations and Subordinated Obligations in amounts sufficient to make payments of the principal of and interest on Bonds of the Authority. Pursuant to the Master Installment Purchase Agreement, including as supplemented by the Collateral Agency Agreement, all Senior Obligations, including Senior Installment Payment Obligations, shall be secured by a first priority lien on and pledge of Net System Revenues. The City grants to the Collateral Agent, for the benefit of the Holders of Senior Obligations, a first priority lien on and pledge of Net System Revenues to secure Senior Obligations. All Senior Obligations shall be of equal rank with each other without preference, priority or distinction of any Senior Obligations over any other Senior Obligations; provided that a Senior Obligation that by its terms under certain circumstances can require the full amount of the Senior Obligation to become payable in installments over not less than five years from the occurrence of the triggering event shall not be deemed to create any impermissible preference, priority or distinction as to lien or otherwise of such Senior Obligation over any other Senior Obligation.

Pursuant to the Master Installment Purchase Agreement, including as supplemented by the Collateral Agency Agreement, all Subordinated Obligations, including Subordinated Installment Payment Obligations, shall be secured by a second priority lien on and pledge of Net System Revenues that is junior and subordinate to the lien on and pledge of Net System Revenues securing Senior Obligations. The City grants to the Collateral Agent, for the benefit of the Holders of Subordinated Obligations, a second priority lien on and pledge of Net System Revenues to secure Subordinated Obligations. All Subordinated Obligations shall be of equal rank with each other without preference, priority or distinction of any Subordinated Obligations over any other Subordinated Obligations; provided that a Subordinated Obligation that by its terms under certain circumstances can require the full amount of the Subordinated Obligation to become payable in installments over not less than five years from the triggering event shall not be deemed to create any impermissible preference, priority or distinction as to lien or otherwise of such Subordinated Obligation over any other Subordinated Obligation; and provided further that a Subordinated Obligation that by its terms under certain circumstances must be treated as, or becomes, a Senior Obligation shall not be deemed to create any impermissible preference, priority or distinction as to lien or otherwise of such Subordinated Obligation over any other Subordinated Obligation.

Pursuant to the Master Installment Purchase Agreement, the City agrees to make Installment Payments (including the 2018 Subordinated Installment Payments) solely from Net System Revenues. The 2018 Subordinated Installment Payments shall be Subordinated Obligations under the Master Installment Purchase Agreement and the payment of the 2018 Subordinated Installment Payments shall be

on parity in right of payment to the 2016 Subordinated Installment Payments, the 2012 Subordinated Installment Payments, and the WIFIA Loan under the Master Installment Purchase Agreement. No Owner of the Obligations shall have any right to take any action or enforce any right that has a materially adverse effect on the interests of the Owners of the Installment Payment Obligations. The City agrees to make Installment Payments solely from Net System Revenues until such time as the Purchase Price for any Components has been paid in full (or provision for the payment thereof has been made pursuant to the Master Installment Purchase Agreement).

The 2018 Supplement provides for the payment by the City of 2018 Subordinated Installment Payments in amounts sufficient to make payments of the principal of and interest on the 2018 Bonds. The 2018 Subordinated Installment Payments securing payment of the 2018 Bonds are payable from Net System Revenues on a basis that is subordinate to the right of payment by the City of its Outstanding Senior Obligations (as defined herein) under the Master Installment Purchase Agreement and on parity with the 2012A Subordinated Bonds, 2016 Subordinated Bonds, and the WIFIA Loan.

Under the Master Installment Purchase Agreement, the City has agreed that it will not discontinue or suspend any Installment Payments (including the 2018 Subordinated Installment Payments) required to be made by the City under the Master Installment Purchase Agreement, whether or not the Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced, curtailed, or terminated, in whole or in part, and such Installment Payments (including the 2018 Subordinated Installment Payments) shall not be subject to reduction, whether by offset or otherwise, and will not be conditioned upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

The term "Net System Revenues" is defined in the Master Installment Purchase Agreement as, for any Fiscal Year, the System Revenues for such Fiscal Year, less the Maintenance and Operation Costs of the Water System for such Fiscal Year.

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

added to System Revenues any amounts transferred out of such Rate Stabilization Fund or the Secondary Purchase Fund to pay Maintenance and Operation Costs of the Water System. See "WATER SYSTEM FINANCIAL OPERATIONS – Rate Stabilization Fund; Other Funds and Accounts."

The term "Maintenance and Operation Costs of the Water System" is defined in the Master Installment Purchase Agreement as (a) any Qualified Take or Pay Obligation (as defined herein), and (b) the reasonable and necessary costs spent or incurred by the City for maintaining and operating the Water System, calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of maintenance and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including administrative costs of the City attributable to the Water System, including the Project and the Master Installment Purchase Agreement, salaries and wages of employees of the Water System, payments to such employees' retirement systems (to the extent paid from System Revenues), overhead, taxes (if any), fees of auditors, accountants, attorneys or engineers, and insurance premiums, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Obligations, including the Master Installment Purchase Agreement, including any amounts required to be deposited in the Rebate Fund pursuant to a Tax Certificate, and fees and expenses payable to any Credit Provider (other than in repayment of a "Credit Provider Reimbursement Obligation"), but excluding in all cases (1) depreciation, replacement, and obsolescence charges or reserves therefor, (2) amortization of intangibles or other bookkeeping entries of a similar nature, (3) costs of capital additions, replacements, betterments, extensions, or improvements to the Water System, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, (4) charges for the payment of principal of and interest on any general obligation bond heretofore or hereafter issued for Water System purposes, and (5) charges for the payment of principal of and interest on any debt service on account of any Obligation on parity with, to the Installment Payments.

The term "Obligations" is defined in the Master Installment Purchase Agreement as (i) obligations of the City for money borrowed (such as bonds, notes, or other evidences of indebtedness) or as installment purchase payments under any contract (including Installment Payments), or as lease payments under any financing lease (determined to be such in accordance with generally accepted accounting principles), the principal of and interest on which are payable from Net System Revenues; (ii) obligations to replenish any debt service reserve funds with respect to such obligations of the City; (iii) obligations secured by or payable from any of such obligations of the City; and (iv) obligations of the City payable from Net System Revenues under (a) any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, (b) any contract to exchange cash flows or a series of payments, or (c) any contract to hedge payment, currency, rate spread, or similar exposure, including, but not limited, to interest rate cap agreements.

All Senior Obligations (referred to as "Parity Obligations" in the Master Installment Purchase Agreement) are of equal rank with each other without preference, priority, or distinction of any Senior Obligations over any other Senior Obligations. The term "Senior Obligations" is defined in the Master Installment Purchase Agreement as (i) Installment Obligations (as defined herein), (ii) Obligations, the principal of and interest on which are payable on parity with Installment Obligations, and (iii) Reserve Fund Obligations. The term "Installment Obligations" is defined in the Master Installment Purchase Agreement as Obligations consisting of or payable from Installment Payments, which are not subordinated in right of payment to other Installment Payments. The term "Credit Provider" is defined in the Master Installment Purchase Agreement as any municipal bond insurance company, bank, or other financial institution or organization that is performing in all material respects its obligations under any policy of insurance, letter of credit, standby purchase agreement, revolving credit agreement, or other credit arrangement providing credit support or liquidity with respect to Senior Obligations (each, a "Credit Support Instrument"). The term "Reserve Fund Obligations" is defined in the Master Installment

Purchase Agreement as the obligations of the City to pay amounts advanced under any Reserve Fund Credit Facility entered into in accordance with the provisions of the related Issuing Instrument or Supplement, which obligations shall constitute Senior Obligations or Subordinated Obligations, as designated by the City.

Senior Obligations

The pledge and right of payment from Net System Revenues securing the 2018 Subordinated Installment Payments (which, in turn, secure the payment of the 2018 Bonds) will be subordinate to the pledge and right of payment from Net System Revenues securing the Senior SRF Loans, currently Outstanding in the principal amount of $78,332,490, and any Senior Obligations hereinafter incurred by the City. See "INTRODUCTION – Outstanding Senior and Subordinated Obligations" above and "WATER SYSTEM FINANCIAL OPERATIONS – Outstanding Indebtedness." See "WATER SYSTEM FINANCIAL OPERATIONS – Anticipated Additional Obligations." All Senior Obligations are secured by a first priority lien on and pledge of Net System Revenues.

Subordinated Obligations

The Master Installment Purchase Agreement permits the issuance of Obligations secured by a lien on and pledge of Net System Revenues, which lien and pledge is subordinate to the lien on and pledge of Net System Revenues securing Senior Obligations (each, a "Subordinated Obligation"). The pledge and right of payment from Net System Revenues securing the 2018 Subordinated Installment Payments (which, in turn, secure the payment of the 2018 Bonds) will be on parity with the pledge and right of payment from Net System Revenues securing the other Subordinated Obligations incurred in accordance with the Master Installment Purchase Agreement, including the Installment Payments securing the Subordinated Obligations currently Outstanding in the principal amount of $812,654,000, which includes $205,889,000 aggregate principal amount of Commercial Paper Notes, that are on parity with the other Subordinated Obligations, and any Subordinated Obligations hereinafter incurred by the City. Under the Indenture, the aggregate principal amount of Commercial Paper Notes Outstanding at any time may not exceed $250 million, as described below. The Outstanding Subordinated Obligations principal amount does not include the City's borrowing of up to $614 million pursuant to the WIFIA Loan Agreement as the City has not yet requested disbursements of amounts under the WIFIA Loan. See "WATER SYSTEM FINANCIAL OPERATIONS – Outstanding Indebtedness."

In 2017, the City established the Commercial Paper Notes program and authorized the issuance of up to $250 million in Commercial Paper Notes that are secured by Subordinated Installment Payments under the Master Installment Payment Agreement. The Series A Commercial Paper Notes are authorized to be issued in the maximum principal amount of $75 million and are supported by an irrevocable direct-pay letter of credit (the "BotW Letter of Credit") issued by Bank of the West ("BotW"). The Series B Commercial Paper Notes are authorized to be issued in the maximum principal amount of $175 million and are supported by an irrevocable direct-pay letter of credit (the "BofA Letter of Credit") issued by Bank of America, N.A. ("BofA"). Unless extended or terminated sooner in accordance with their terms, the BotW Letter of Credit will expire on January 31, 2020, and the BofA Letter of Credit will expire on January 31, 2019. The City has Outstanding $205,889,000 principal amount of Commercial Paper Notes and $44,111,000 of Commercial Paper Notes that remain to be issued. Although not required by the Commercial Paper Notes issuing instruments, it is the City's policy to obtain City Council authorization for the issuance of Commercial Paper Notes in excess of the $44,111,000 currently remaining under the Commercial Paper Notes program.

Nothing contained in the Master Installment Purchase Agreement limits the ability of the City to grant a lien on and pledge of the Net System Revenues that is subordinate to any liens on and pledges of

Net System Revenues for the benefit of Subordinated Obligations, including the 2018 Subordinated Installment Payments. Pursuant to the WIFIA Loan Agreement, the City shall not issue any additional Obligations having a lower lien priority than the Senior Obligations and the Subordinated Obligations ("Junior Obligations") unless such Junior Obligations are fully subordinated in right of payment and in right of security in the Net System Revenues to the Obligations in respect of the WIFIA Loan, including with respect to payment from revenues and reserves and payment upon default of the applicable Obligations.

Application of Net System Revenues and Other Amounts under the Collateral Agency Agreement

Pursuant to the Collateral Agency Agreement, the Collateral Agent shall make the following withdrawals, transfers, and payments from the accounts established under the Collateral Agency Agreement into which Net System Revenues have been deposited by the City pursuant to the Master Installment Purchase Agreement:

(i) on each Senior Obligation Interest Payment Date and on each other date on which the following amounts shall be due and payable, the Collateral Agent shall pay to the Holders (as such term is defined in the Collateral Agency Agreement) of Senior Obligations, from the Senior Obligations Interest Account, the interest due and payable, including any amounts overdue and payable, on such date to Holders of Senior Obligations; provided that if the amount on deposit in the Senior Obligations Interest Account is insufficient therefor, the Collateral Agent shall pay each Senior Obligation Holder a Pro Rata Amount.

(ii) on each Senior Obligation Principal Payment Date and on each other date on which the following amounts shall be due and payable, the Collateral Agent shall pay to the Holders of Senior Obligations, from the Senior Obligations Principal Account, the principal and mandatory sinking fund redemptions due and payable, including any amounts overdue and payable, on such date to Holders of Senior Obligations; provided that if the amount on deposit in the Senior Obligations Principal Account is insufficient therefor, the Collateral Agent shall pay each Senior Obligation Holder a Pro Rata Amount.

(iii) on each Senior Obligation Interest Payment Date, the Collateral Agent shall transfer to the holder of each Senior Obligations Reserve Fund (if any) the amount set forth in a written direction of the City, which shall be no more than the amount necessary so that the balance therein equals the applicable Reserve Requirement; provided that if the amount on deposit in the Senior Obligations Reserve Account is insufficient therefor, the Collateral Agent shall transfer to each holder of a Senior Obligations Reserve Fund a Pro Rata Amount; and provided further that in the event of any draw on a Reserve Fund Credit Facility held in any Senior Obligations Reserve Fund, there shall be deemed a deficiency in such Senior Obligations Reserve Fund until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount.

(iv) on each Subordinated Obligation Interest Payment Date and on each other date on which the following amounts shall be due and payable, the Collateral Agent shall pay to the Holders of Subordinated Obligations, from the Subordinated Obligations Interest Account, the interest due and payable, including any amounts overdue and payable, on such date to Holders of Subordinated Obligations; provided that if the amount on deposit in the Subordinated Obligations Interest Account is insufficient therefor, the Collateral Agent shall pay each Subordinated Obligation Holder a Pro Rata Amount.

(v) on each Subordinated Obligation Principal Payment Date and on each other date on which the following amounts shall be due and payable, the Collateral Agent shall pay to the Holders of Subordinated Obligations, from the Subordinated Obligations Principal Account, the principal and mandatory sinking fund redemptions due and payable, including any amounts overdue and payable, on such date to Holders of Subordinated Obligations; provided that if the amount on deposit in the Subordinated Obligations Principal Account is insufficient therefor, the Collateral Agent shall pay each Subordinated Obligation Holder a Pro Rata Amount.

(vi) on each Subordinated Obligation Interest Payment Date, the Collateral Agent shall transfer to the holder of each Subordinated Obligations Reserve Fund (if any) the amount set forth in a written direction of the City, which shall be no more than the amount necessary so that the balance therein equals the applicable Reserve Requirement; provided that if the amount on deposit in the Subordinated Obligations Reserve Account is insufficient therefor, the Collateral Agent shall transfer to each holder of a Subordinated Obligations Reserve Fund a Pro Rata Amount; and provided further that in the event of any draw on a Reserve Fund Credit Facility held in any Subordinated Obligations Reserve Fund, there shall be deemed a deficiency in such Subordinated Obligations Reserve Fund until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount.

"Pro Rata Amount" means, with respect to any payment to be made to a holder of a Secured Obligation from funds held by the Collateral Agent in the applicable account under the Collateral Agency Agreement, an amount equal to the total amount of funds held by the Collateral Agent in such account and available to make such payment to all holders of Secured Obligations entitled to receive such payment multiplied by the quotient of the amount of such payment due and payable on such date to such holder divided by the amount of such payment due and payable on such date to all holders entitled to receive such payment.

Nothing in the Collateral Agency Agreement or the Master Installment Purchase Agreement affects or diminishes the rights and remedies of the holders of Secured Obligations under their respective Issuing Instruments, including any right in such Issuing Instrument to accelerate amounts due under the applicable Secured Obligations. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Collateral Agency Agreement."

Incurrence of Additional Obligations Under the Master Installment Purchase Agreement

Pursuant to the Master Installment Purchase Agreement, the City may incur additional Obligations, payments with respect to which will be senior to, or on parity with, the City's obligation to make 2018 Subordinated Installment Payments, subject to satisfaction of the conditions specified in the Master Installment Purchase Agreement. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Master Installment Purchase Agreement – System Revenues – Additional Obligations." In addition, in connection with execution of certain of the Senior SRF Loans, the City agreed that incurrence of additional Senior Obligations or Subordinated Obligations is subject to Net System Revenues during any 12-consecutive-month period within the 18 consecutive months ending immediately prior to the issuance of such additional debt being at least 1.1 times the SRF MADS (as defined herein) for existing debt and the proposed additional debt, as evidenced by a certificate of the City.

Further, the WIFIA Loan Agreement provides that the City may incur additional Senior Obligations and additional Subordinated Obligations subject to the satisfaction of certain conditions, including, (i) with respect to additional Senior Obligations, provision of a certificate showing that (1) the Net System Revenues as shown by the books of the City for any twelve (12)-consecutive-month period within the eighteen (18) consecutive months ending immediately prior to the incurring of such additional

Senior Obligations shall have amounted to or exceeded the greater of (I) at least 1.20 times the Maximum Annual Debt Service on all Senior Obligations to be Outstanding immediately after the issuance of the proposed additional Senior Obligations or (II) at least 1.10 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed additional Senior Obligations, or (2) the estimated Net System Revenues for the five City Fiscal Years following the earlier of (I) the end of the period during which interest on those additional Senior Obligations is to be capitalized or, if no interest is to be capitalized, the City Fiscal Year in which the additional Senior Obligations are issued, or (II) the date on which substantially all new components to be financed with such additional Senior Obligations are expected to commence operations, will be at least equal to 1.20 times the Maximum Annual Debt Service for all Senior Obligations which will be Outstanding immediately after the issuance of the proposed additional Senior Obligations, and (ii) with respect to additional Subordinated Obligations, provision of a certificate showing (a) the Net System Revenues as shown by the books of the City for any twelve (12)-consecutive-month period within the eighteen (18) consecutive months ending immediately prior to the incurring of such additional Subordinated Obligations shall have amounted to at least 1.10 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed additional Subordinated Obligations; or (b) the estimated Net System Revenues for the five City Fiscal Years following the earlier of (I) the end of the period during which interest on those additional Subordinated Obligations is to be capitalized or, if no interest is to be capitalized, the City Fiscal Year in which the additional Subordinated Obligations are issued; or (II) the date on which substantially all new facilities financed with such additional Subordinated Obligations are expected to commence operations, will be at least equal to 1.10 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed additional Subordinated Obligations.

Rate Covenant

Master Installment Purchase Agreement. The City has covenanted in the Master Installment Purchase Agreement to fix, prescribe, and collect rates and charges for the Water Service that will be at least sufficient to yield the greater of (i) Net System Revenues sufficient to pay during each Fiscal Year all Obligations (including the 2018 Subordinated Installment Payments and loan payments due on SRF loans) payable in such Fiscal Year or (ii) Adjusted Net System Revenues during each Fiscal Year equal to 120% of the Adjusted Debt Service (which does not include debt service on Subordinated Obligations such as the 2018 Subordinated Installment Obligation) for such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but the City will not reduce the rates and charges then in effect unless the Net System Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the Master Installment Purchase Agreement. The term "Adjusted Net System Revenues" is defined in the Master Installment Purchase Agreement as, for any Fiscal Year, the Net System Revenues for such Fiscal Year, minus an amount equal to earnings from investments in any Reserve Fund securing Senior Obligations for such Fiscal Year. The term "Adjusted Debt Service" is defined in the Master Installment Purchase Agreement as, for any Fiscal Year, Debt Service on Senior Obligations for such Fiscal Year, minus an amount equal to earnings from investments in any Reserve Fund for Senior Obligations for such Fiscal Year. Net System Revenues (and, therefore, Adjusted Net System Revenues) may be increased or reduced by transfers in to or out of the Rate Stabilization Fund or the Secondary Purchase Fund.

Senior SRF Loans. Pursuant to certain of the Senior SRF Loans, the City covenanted to ensure that net revenues are equal to at least 1.1 times maximum annual debt service in each Fiscal Year. For purposes of the affected Senior SRF Loans, "maximum annual debt service" means the maximum amount of debt service due on Water System obligations in any Fiscal Year during the period commencing with the Fiscal Year for which such calculation is made and terminating with the last Fiscal Year in which debt service for any Water System obligations will become due (the "SRF MADS").

WIFIA Loan. Pursuant to the WIFIA Loan Agreement, the City covenanted, to the extent permitted by law, to fix, prescribe and collect rates, fees and charges for the Water System during each Fiscal Year which will be at least sufficient to yield, during each Fiscal Year, Net System Revenues equal to (A) at least one hundred ten percent (110%) of the Debt Service with respect to all Outstanding Obligations for such Fiscal Year and (B) at least one hundred twenty percent (120%) of the Debt Service with respect to all Outstanding Senior Obligations for such Borrower Fiscal Year.

The covenants in the agreements for the Senior SRF Loans and the WIFIA Loan Agreement are not made for the benefit of the Owners of the 2018 Bonds and Owners of the 2018 Bonds do not have a right to enforce such covenants.

See "– Pledge of Net System Revenues" above. For information on the possible limitation on the City's ability to comply with its rate covenants described above as a consequence of Proposition 218, see "RISK FACTORS – Rate-Setting Process Under Proposition 218" and "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIIIC" and "– Article XIIID." For a description of the reserve funds established by the City within the Water Utility Fund, see "WATER SYSTEM FINANCIAL OPERATIONS – Rate Stabilization Fund; Other Funds and Accounts."

The Collateral Agency Agreement

Pursuant to the Collateral Agency Agreement, the Collateral Agent shall serve as agent of the Trustee and the Owners of Secured Obligations for purposes of receiving payments of Net System Revenues from the City and making payments on Obligations from Net System Revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS - Pledge of Net System Revenues; Payment of Installment Payments." In addition, as provided in the Collateral Agency Agreement, the Collateral Agent shall have the right to exercise all of the rights and remedies described in the Collateral Agency Agreement, on behalf of and for the benefit of Owners of Secured Obligations and any trustee on their behalf, including the Trustee, under the First Amendment, the Indenture and any other Issuing Instrument. Under the Master Installment Purchase Agreement and the Collateral Agency Agreement, the Collateral Agent (rather than the Corporation) shall have all rights, pursuant to the Master Installment Purchase Agreement, the Collateral Agency Agreement or any other Issuing Instrument, (a) as a grantee of a pledge of Net System Revenues, (b) to accelerate or otherwise declare any Obligations immediately due and payable, (c) to exercise any remedies by or on behalf of the Owners of any Obligations or otherwise with respect to the Net System Revenues following an event of default under the Master Installment Purchase Agreement, or (d) to receive and/or apply any Net System Revenues to the payment of any Obligations following an event of default under the Master Installment Purchase Agreement. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Collateral Agency Agreement."

Payment of Bonds Under the Indenture

Senior Bonds. Pursuant to the Indenture, on or before each February 1 and August 1, each date on which Commercial Paper Notes are due and payable, and such other date as provided for in a Supplemental Indenture (each an "Interest Payment Date"), the Trustee shall transfer from the Senior Bonds Payment Fund and deposit in the Senior Bonds Interest Account that amount of money that, together with any money contained in the Senior Bonds Interest Account, equals the aggregate amount of interest becoming due and payable on all Outstanding Senior Bonds on such Interest Payment Date. No deposit need be made in the Senior Bonds Interest Account if the amount contained in the Senior Bonds Interest Account equals at least the aggregate amount of interest becoming due and payable on all Outstanding Senior Bonds on such Interest Payment Date. All money in the Senior Bonds Interest

Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Senior Bonds as it shall become due and payable (including accrued interest on any Senior Bonds redeemed prior to maturity).

On or before each Principal Payment Date, the Trustee shall transfer from the Senior Bonds Payment Fund and deposit in the Senior Bonds Principal Account that amount of money that, together with any money contained in the Senior Bonds Principal Account, equals the aggregate principal becoming due and payable on all Outstanding Senior Bonds. No deposit need be made in the Senior Bonds Principal Account if the amount contained therein is at least equal to the aggregate amount of principal become due and payable on Outstanding Senior Bonds. All money in the Senior Bonds Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Senior Bonds as it shall become due and payable. Within the Senior Bonds Payment Fund, there is established a special account designated the "Senior Bonds Redemption Account." All money in the Senior Bonds Redemption Account shall be held in trust by the Trustee and shall be applied, used, and withdrawn to redeem Senior Bonds.

Any delinquent Installment Payments pledged to the Senior Bonds shall be applied first to the Senior Bonds Interest Account for the immediate payment of interest payments past due and to the Senior Bonds Principal Account for immediate payment of principal payments past due on any Senior Bond. Any remaining money representing delinquent Installment Payments pledged to Senior Bonds shall be deposited in the Senior Bonds Payment Fund to be applied in the manner provided therein. There are currently no Outstanding Senior Bonds. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Subordinated Bonds. Pursuant to the Indenture, except to the extent that payment is made of interest on the Commercial Paper Notes from the proceeds of Commercial Paper Notes or the proceeds of a Draw under the related Subordinated Credit Support Instrument, on or before each Interest Payment Date, the Trustee shall transfer from the Subordinated Bonds Payment Fund and deposit in the Subordinated Bonds Interest Account that amount of money that, together with any money contained in the Subordinated Bonds Interest Account, equals the aggregate amount of interest becoming due and payable on all Outstanding Subordinated Bonds on such Interest Payment Date. No deposit need be made in the Subordinated Bonds Interest Account if the amount contained in the Subordinated Bonds Interest Account equals at least the aggregate amount of interest becoming due and payable on all Outstanding Subordinated Bonds on such Interest Payment Date; provided that the Authority may direct the Trustee to maintain amounts in the Subordinated Bonds Interest Account following payment of all amounts required to be paid under the Indenture to be used for payments on Commercial Paper Notes on future Interest Payment Dates, and in such instance, such additional amount shall not be included as amounts available to pay interest becoming due and payable on Outstanding Subordinated Bonds. All money in the Subordinated Bonds Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Subordinated Bonds as it shall become due and payable (including accrued interest on any Subordinated Bonds redeemed prior to maturity).

Except to the extent that payment is made of the principal of the Commercial Paper Notes from the proceeds of Commercial Paper Notes or the proceeds of a Draw under the related Subordinated Credit Support Instrument, on or before each "Principal Payment Date" (being each August 1, each date on which Commercial Paper Notes are due and payable, and such other date as provided for in a Supplemental Indenture), the Trustee shall transfer from the Subordinated Bonds Payment Fund and deposit in the Subordinated Bonds Principal Account that amount of money that, together with any money contained in the Subordinated Bonds Principal Account, equals the aggregate principal becoming due and payable on all Outstanding Subordinated Bonds. No deposit need be made in the Subordinated Bonds Principal Account if the amount contained therein is at least equal to the aggregate amount of

principal become due and payable on Outstanding Subordinated Bonds. All money in the Subordinated Bonds Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Subordinated Bonds as it shall become due and payable.

In addition to the above accounts, the Trustee shall establish and maintain within the Subordinated Bonds Payment Fund a special account designated the "Subordinated Bonds Redemption Account." All money in the Subordinated Bonds Redemption Account shall be held in trust by the Trustee and shall be applied, used, and withdrawn to redeem Subordinated Bonds.

Any delinquent Installment Payments pledged to the Subordinated Bonds shall be applied first to the Subordinated Bonds Interest Account for the immediate payment of interest payments past due and to the Subordinated Bonds Principal Account for immediate payment of principal payments past due on any Subordinated Bond. Any remaining money representing delinquent Subordinated Installment Payments pledged to Subordinated Bonds shall be deposited in the Subordinated Bonds Payment Fund to be applied in the manner provided therein.

On or before each date any Commercial Paper Note matures, the Trustee shall transfer from the Subordinated Bonds Payment Fund to the Issuing and Paying Agent for deposit in the applicable Reimbursement Account that amount of money that equals the aggregate amount of interest or principal becoming due and payable on the Commercial Paper Notes to the extent that payment of such interest on or principal of the Commercial Paper Notes is not made from the proceeds of Commercial Paper Notes but is made from the proceeds of a Draw under the related Subordinated Credit Support Instrument. On or before each date any related Subordinated Credit Provider Reimbursement Obligations become due and payable, the Trustee shall transfer from the Subordinated Bonds Payment Fund and deposit in the applicable Reimbursement Account that amount of money that, together with any amounts transferred pursuant to the preceding sentence, equals the amount of any such Subordinated Credit Provider Reimbursement Obligations when due. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture."

Issuance of Additional Bonds Under the Indenture

Pursuant to the Indenture, the Trustee may, upon Written Request of the Authority, by a supplement to the Indenture, establish one or more other series of bonds, which may include Additional Senior Bonds and Additional Subordinated Bonds (collectively, the "Additional Bonds"). The term "Additional Senior Bonds" means those Bonds authorized and issued pursuant to the Indenture and payable on parity with other Bonds having a first priority lien on Net System Revenues. The term "Additional Subordinated Bonds" means those Bonds authorized and issued pursuant to the Indenture on parity with the 2012A Subordinated Bonds, the 2016A Subordinated Bonds, the 2016B Subordinated Bonds and the 2018 Bonds. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture – Execution and Delivery of Additional Bonds."

Nothing in the Indenture limits in any way the power and authority of the Authority to incur other obligations payable from other lawful sources.

No Debt Service Reserve Fund for the 2018 Bonds

No debt service reserve fund will be created or funded to secure the 2018 Bonds. Debt service reserve funds were created in connection with the issuance of certain of the Authority's Bonds and the incurrence of certain of the City's Obligations, and amounts on deposit in, or to be on deposit in, such debt service reserve funds are not available to secure the 2018 Bonds.

DEBT SERVICE SCHEDULE

The following table sets forth the amounts required in each Fiscal Year for the payment of principal of and interest on Outstanding Senior Obligations and Subordinated Obligations, including the expected issuance of the 2018 Bonds, secured by Net System Revenues. A portion of the proceeds of the 2018 Bonds will be used to pay in full the principal of the Commercial Paper Notes.

TABLE 1
DEBT SERVICE ON ALL OUTSTANDING OBLIGATIONS[1]
(Unaudited)

Fiscal Year	Total Senior Obligations Debt Service[2]	Outstanding Subordinated Obligations Debt Service[3]	2018 Bonds			Total Debt Service on Subordinated Obligations	Total Debt Service
			Principal	Interest	Total Principal and Interest		
2019	$ 2,288,338	$ 15,091,300	-	$ 956,943	$ 956,943	$ 16,048,243	$ 18,336,581
2020	5,547,833	60,746,650	$ 3,815,000	12,208,175	16,023,175	76,769,825	82,317,658
2021	5,735,883	60,760,875	4,010,000	12,012,550	16,022,550	76,783,425	82,519,308
2022	5,735,883	60,753,725	4,215,000	11,806,925	16,021,925	76,775,650	82,511,533
2023	5,735,883	53,562,400	4,435,000	11,590,675	16,025,675	69,588,075	75,323,958
2024	5,735,883	53,561,325	4,660,000	11,363,300	16,023,300	69,584,625	75,320,508
2025	5,735,883	55,597,375	4,900,000	11,124,300	16,024,300	71,621,675	77,357,558
2026	5,735,883	57,071,275	5,155,000	10,872,925	16,027,925	73,099,200	78,835,083
2027	5,735,883	56,472,175	5,415,000	10,608,675	16,023,675	72,495,850	78,231,733
2028	5,735,883	56,492,425	5,690,000	10,331,050	16,021,050	72,513,475	78,249,358
2029	5,735,883	56,480,925	5,985,000	10,039,175	16,024,175	72,505,100	78,240,983
2030	5,735,883	36,193,175	6,290,000	9,732,300	16,022,300	52,215,475	57,951,358
2031	5,735,883	36,199,925	6,615,000	9,409,675	16,024,675	52,224,600	57,960,483
2032	4,732,805	36,203,175	6,955,000	9,070,425	16,025,425	52,228,600	56,961,405
2033	2,580,374	36,199,925	7,310,000	8,713,800	16,023,800	52,223,725	54,804,099
2034	2,580,374	24,370,175	7,685,000	8,338,925	16,023,925	40,394,100	42,974,474
2035	2,580,374	24,365,925	8,080,000	7,944,800	16,024,800	40,390,725	42,971,099
2036	2,580,374	24,366,425	8,495,000	7,530,425	16,025,425	40,391,850	42,972,224
2037	1,727,569	24,364,300	8,930,000	7,094,800	16,024,800	40,389,100	42,116,669
2038	1,727,569	24,367,050	9,385,000	6,636,925	16,021,925	40,388,975	42,116,544
2039	1,727,569	24,362,175	9,865,000	6,155,675	16,020,675	40,382,850	42,110,419
2040	312,487	21,339,550	10,375,000	5,649,675	16,024,675	37,364,225	37,676,712
2041	312,487	2,613,600	10,905,000	5,117,675	16,022,675	18,636,275	18,948,762
2042	312,487	2,612,825	11,465,000	4,558,425	16,023,425	18,636,250	18,948,737
2043	312,487	2,613,875	12,055,000	3,970,425	16,025,425	18,639,300	18,951,787
2044	312,487	2,611,375	12,670,000	3,352,300	16,022,300	18,633,675	18,946,162
2045	312,487	2,613,125	13,340,000	2,685,375	16,025,375	18,638,500	18,950,987
2046	312,487	2,613,750	14,055,000	1,966,256	16,021,256	18,635,006	18,947,493
2047	312,487	-	14,815,000	1,208,419	16,023,419	16,023,419	16,335,906
2048	312,487	-	15,610,000	409,763	16,019,763	16,019,763	16,332,250
2049	312,487	-	-	-	-	-	312,487
2050	312,487	-	-	-	-	-	312,487
Total[4]:	**$94,605,248**	**$914,600,800**	**$243,180,000**	**$222,460,755**	**$465,640,755**	**$1,380,241,555**	**$1,474,846,804**

(1) Includes current debt service on Outstanding Obligations, except for debt service on the outstanding Commercial Paper Notes. Does not include the Equipment Lease (as herein defined), any future indebtedness under the Master Installment Purchase Agreement, the WIFIA Loan or any additional SRF loans. See "WATER SYSTEM FINANCIAL OPERATIONS – Outstanding Indebtedness" and "WATER SYSTEM FINANCIAL OPERATIONS – Anticipated Additional Obligations." In addition, the schedule of debt service assumes that there is no redemption or prepayment of obligations prior to their scheduled maturity.

(2) Debt service on the Senior SRF Loans.

(3) Debt service on the 2012A Subordinated Bonds, the 2016A Subordinated Bonds and the 2016B Subordinated Bonds. Excludes principal of and interest on the Commercial Paper Notes; a portion of the proceeds of the 2018 Bonds will be used to pay in full the principal of the Commercial Paper Notes. Does not include the City's borrowing of up to $614 million pursuant to the WIFIA Loan Agreement as the City has not yet requested disbursements of amounts under the WIFIA Loan and no principal is outstanding under the WIFIA Loan.

(4) Amounts have been rounded; total may not equal the sum of the components.

Source: Debt Management Department, City of San Diego.

WATER SYSTEM ORGANIZATION AND MANAGEMENT

Certain of the information set forth under this caption has been obtained from publicly available sources other than the City, which the City and the Authority have no reason to believe such information to be inaccurate or incorrect, including, without limitation, the comprehensive annual financial reports ("CAFRs") and other public financial documents of the San Diego County Water Authority ("CWA") and The Metropolitan Water District of Southern California ("MWD"). As described herein, typically an average of 85-90% of annual water deliveries are obtained from imported water supplied to the Water System. Accordingly, certain of the information set forth under this caption has been included because it provides additional detail with respect to such sources of supply that may be considered relevant to an informed evaluation and analysis of the 2018 Bonds, the Water System and the Department. However, such information is not guaranteed by the City or the Authority as to its accuracy or completeness and no representation is made as to the absence of material adverse changes in such information subsequent to the date of the respective publicly available source document. Neither CWA nor MWD has participated in the preparation of this Official Statement. Neither CWA nor MWD is obligated in any way to the owners or Beneficial Owners of any 2018 Bonds and neither has pledged any of its moneys, funds or assets toward the payment of any amount due in connection with the 2018 Bonds.

General

The Department provided the approximately 1.4 million people living in the City and the cities of Del Mar, Coronado and Imperial Beach with an average of approximately 155 million gallons per day ("mgd"), or about 174,000 acre feet ("AF") per year ("AFY") of potable water in Fiscal Year 2018 resulting in approximately $536 million in water sales revenue. The balance of the total water sales amount of $15 million was made up of recycled and raw water sales. Based on statistics provided by the San Diego Association of Governments ("SANDAG"), the City's population is projected to increase approximately 22% over the next 20 years. Based on demographic data provided by SANDAG (the "2050 Regional Growth Forecast Update, Series 13"), an assumption of normal weather conditions, and excluding future water conservation interventions by the City (*e.g.*, incentive and rebate programs), the Department's Long-Range Planning and Water Resources Division, with input from other Department staff and its consultants, developed baseline potable water projections through 2040 for all retail water sectors. Cumulative sector demands are forecasted to increase by 36% over the projected period of 2020 to 2040.

The Department has typically provided potable water to its customers primarily from two water sources: (1) by securing, on average, approximately 10 - 15% of its water needs through local supplies, and (2) by purchasing approximately 85 - 90% of its water from CWA. For Fiscal Year 2019, the Department projects supplying 5% of its water demand from local sources. This is lower than the typical 10-15% due to below average rainfall during Rain Year 2018, which is measured from October 1, 2017 to September 30, 2018 (3.34 inches of rainfall occurred in Rain Year 2018; the average annual rainfall is 10.34 inches). For Fiscal Years 2020 and thereafter, Department staff projects satisfying approximately 10% of its annual water demand from local sources. CWA is a wholesale water agency that provided approximately 399,826 AF of imported and desalinated water to its member agencies in the County in Fiscal Year 2018, including 154,584 AF supplied to the Department. CWA currently acquires the majority of its water from three main sources: (i) desalinated water, (ii) independent water purchases as part of the herein described Quantification Settlement Agreement and (iii) MWD, which is comprised of 26 public water agencies. MWD obtains its water from the Colorado River through the United States Bureau of Reclamation and from northern California via the State Water Project (the "SWP"), through the California Department of Water Resources ("DWR"). MWD is one of 29 public water agencies (the "SWP Contractors") that have long-term contracts for water service from DWR (each a "State Water Contract") and it is the largest agency in terms of the number of people it serves (approximately 19

million), the share of SWP water that it has contracted to receive (approximately 50%), and the percentage of total annual payments made to DWR by agencies with State water contracts (historically as high as 60%). In Fiscal Year 2017, MWD sold approximately 1.54 million AF of imported water to its customers. CWA is one of MWD's largest customers, responsible for approximately 19.5% of MWD's total water revenues in Fiscal Year 2017. Both CWA and MWD are developing storage and additional supplies, such as water transfers, to augment their imported water. See "WATER SUPPLY – Current Water Supply."

Governance and Management of Water System

General. The Water System is owned by the City and operated by the City through the Department. The Department is comprised of several branches that are funded by both the Water Utility Fund and the Sewer Revenue Fund, depending upon which system benefits from the tasks completed. Though the different branches cover all tasks required by the Department, separate accounting is kept for each fund. The Department ultimately reports to the Mayor, who has operational authority over the Department and appoints managers and directors who are charged with the operations of the Department. The Director of Public Utilities, who reports to a Deputy Chief Operating Officer, oversees the Department. The day-to-day operational responsibility for the Department rests with four Assistant Directors who manage the following branches: System Management and Operations, Distribution and Collection, Business Support and Pure Water and Quality Assurance. The Department's management team is also comprised of deputy directors who head each of the divisions and program managers who provide program assistance to the management team. The Department also includes a Department Management section and an External Affairs section.

The City Council of the City (the "City Council") has the authority to approve the Department's budget, to set rates and charges of the City utilities, including the Water System, and to approve execution of certain contracts. For information on how the City sets the rates and charges of the Water System see "WATER SYSTEM FINANCIAL OPERATIONS – Establishment, Calculation and Collection of Water Charge Revenue." In accordance with the provisions of the City Municipal Code, the Water System funds are administered in an enterprise account separate from the City's General Fund.

Operational Changes. The Department is undergoing an internal review of the areas of management, internal controls, processes and protocols, employee oversight and public accountability. In addition, the Department is in the process of implementing various changes as a result of the assessments described under "Water Utility Customer Billing Operations, Internal Audits and Other Related Matters." To aid in this effort, as of August 2018, Stacey LoMedico, the City's Assistant Chief Operating Officer, has been assigned to the Department to focus on Department Operations and recommend proposed operational improvements. Ms. LoMedico has served the City since 1986 in a variety of roles, including Director of the City's Parks and Recreation Department, until she was appointed as the Assistant Chief Operating Officer in 2013. As Assistant Chief Operating Officer, Ms. LoMedico oversees four administrative branches of the City: Infrastructure/Public Works; Internal Operations; Neighborhood Services; and Smart and Sustainable Communities, which in total represent nineteen departments, four programs and more than 7,500 employees. Ms. LoMedico holds a Bachelor's Degree in Public Administration from San Diego State University.

Officers. The current Senior Executive officers managing the Department and their respective biographies are as follows:

Johnnie Perkins Jr. Mr. Perkins was recently appointed to serve as the Deputy Chief Operating Officer for Infrastructure/Public Works, where he oversees the branch and the Department's implementation of audit recommendations. He works closely with Department staff on these ongoing

assessments and accompanying reforms. Mr. Perkins has over 28 years of experience in the public and private sector managing transportation, water, recycling and solid waste, land use, healthcare, capital projects, crisis management issues and financial management oversight. Prior to his appointment as Deputy Chief Operating Officer, Mr. Perkins served as the Deputy Director of the City's Environmental Services Department. Mr. Perkins holds a Bachelor of Arts degree in Political Science from the University of California, Los Angeles.

Matthew Vespi. Mr. Vespi serves as the Interim Director of the Department while the nation-wide search for a Director is conducted. Mr. Vespi has served as the City Department of Finance's Assistant Director and as Interim Director of the Financial Management and Risk Management Departments. Mr. Vespi earned a Bachelor of Science degree in Business Administration and a Master of Business Administration from the University of Central Florida.

Rania Amen. Ms. Amen serves as the Assistant Director of the Water System Management and Operations Branch. Ms. Amen's duties include oversight of the day-to-day operations of the Water System Operations Division, Wastewater Treatment and Disposal Division, Engineering and Program Management Division, the Asset Management Program and the Recycled Water Program. Ms. Amen holds a Bachelor of Science degree in Civil Engineering from the University of Alexandria and is a Registered Professional Engineer in the State of California. Her 26-year professional background in engineering services includes the operation, planning, design and construction of water, wastewater, storm water renewable energy facilities, buildings, and transportation.

Stan Griffith. Mr. Griffith serves as the Assistant Director of the Distribution and Collection Branch. Mr. Griffith's duties include oversight of the day-to-day operations of the Wastewater Collection Division and the Water Construction and Maintenance Division. He has been an employee of the City for 30 years and has served in various management capacities including Labor Relations officer for the City and Assistant Deputy Director of the Environmental Monitoring and Technical Services Division. Mr. Griffith earned a Bachelor of Science degree in Education from the University of Wisconsin at Oshkosh and has completed substantial coursework toward a Master's degree in Public Administration.

Lee Ann Jones-Santos. Ms. Jones-Santos serves as the Assistant Director of the Business Support Branch. Ms. Jones-Santos's duties include oversight of the day-to-day operations of the Finance and Information Technology Division, Customer Support Division and Long-Range Planning and Water Resources Division. During her 19-year tenure with the City, Ms. Jones-Santos has gained experience in enterprise financial statement reporting and extensive knowledge of City operations. Ms. Jones-Santos holds a Bachelor of Science degree in Accounting from California State University in San Marcos.

John Helminski. Mr. Helminski serves as the Assistant Director of the Pure Water and Quality Assurance Branch. His duties include oversight of the day-to-day operations of the Employee Services and Quality Assurance Division, Environmental Monitoring and Technical Services Division, and the Pure Water Program. His 27-year professional background also includes experience in Operation and Maintenance of Right of Way Infrastructure and the City's Right of Way Infrastructure Capital Improvement Program. Mr. Helminski holds a Bachelor of Science degree in Civil/Construction Engineering from the New Jersey Institute of Technology, Newark College of Engineering.

Oversight. The Independent Rates Oversight Committee ("IROC") was established by City ordinance in 2007 to oversee and advise on various aspects of the Water System and the Wastewater System. There are 11 members on IROC, appointed by the Mayor and confirmed by the City Council, and two ex-officio members, one representing and appointed by the Metropolitan Wastewater Joint Powers Authority, and one representing and appointed by the ten-member City representatives to the San Diego

County Water Authority. IROC serves as an official advisory body to the Mayor and the City Council on policy issues relating to the oversight of Department operations.

On December 21, 2017, IROC issued its annual report on the Department for Fiscal Year 2017 (the "2017 IROC Report"). The 2017 IROC Report included, among other things, several recommendations with respect to the Pure Water Program, the City's phased, multi-year program to provide one-third of San Diego's water supply locally by 2035 (the "Pure Water Program"), including that the Department release updated costs and timing of expenditures and evaluate the impact of certain activities on future water and wastewater rates and charges. The 2017 IROC Report also recommended that the Department increase funding to replace the aging portions of the water distribution system and provide to IROC various updates on the CIP and Pure Water Program. Pursuant to its responses in March 2018, the Department stated that it agreed with each of the recommendations and provided information on how the recommendations could be implemented. See "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM" and "– Capital Improvement Financing Plan" under that heading, and "WATER SUPPLY – Pure Water Program."

Water Utility Customer Billing Operations, Internal Audits, and Other Related Matters

In late 2017, some customers of the Department started reporting higher than average water bills. In January 2018, news reports began covering stories of the Department's water customers complaining of high water bills. The Department began the process of reviewing the customer complaints, and took various actions including providing weekly high billing updates to the City Council offices, holding weekly department meetings to discuss and manage progress, and tracking customer billing issues. As of September 11, 2018, more than 1,134 customers have had their account information evaluated. As a result of these evaluations, the Department issued $562,000 in billing adjustments for the period July 1, 2017 to June 30, 2018 (representing 0.1% total Water System Revenues for the same period). In Fiscal Year 2017, the refunds totaled approximately $102,000.

In February 2018, the Office of the City Auditor was asked by the Mayor and City Council President Pro Tem to investigate the reported increase in residents' water bills. This audit was published on July 26, 2018, heard by the City Audit Committee on July 30, 2018 and heard by the City Council on September 10, 2018. The key audit findings include that there were multi-causal factors that contributed to bill increases; review of the single family residential customers in calendar year 2017 showed that less than 1% of bills were adjusted after customers received an incorrect bill, and there were numerous reasons that meter reading was impacting the customer billing. The Department management agreed with all the findings and expects to address a majority of the recommendations by January 2019 and all recommendations by June 2019. The Water Billing Operations audit is being followed by an audit of the Advanced Metering Infrastructure ("AMI"). AMI is an integrated system of smart meters, communications networks, and data management systems that enables two-way communications between utilities and customers. There are currently approximately 15,000 meters in operation. The audit is estimated to be completed by early 2019.

In March 2018, the Department also initiated an operational assessment of its meter-to-cash operations including billing, meter reading, meter testing and smart metering led by West Monroe Partners, a business and operations consulting firm. West Monroe Partners conducted an assessment in March 2018 that included a detailed data analysis, observed office staff and field personnel, conducted discovery interviews, and compared the Department operations to industry peers. West Monroe Partners published the report based on its review on July 26, 2018. West Monroe Partners' key recommendations include improving internal operations, enhancing meter reading controls, becoming a customer centric utility, becoming a data-driven utility, enhancing conservation messaging, revising bill presentment, and accelerating AMI deployment. In August 2018, the Department made a commitment to address all the

recommendations included in the City Auditor Audit and West Monroe Report. The Department has established a high-level Action Plan which involves a detailed schedule of planned activities by month. The schedule provides various details including task descriptions and due dates, staff lead and supporting roles, and other information by audit recommendation number. There are weekly team meetings to monitor progress, discuss open items with the Department management, and to perform internal review of completed tasks/supporting documentation. The Department is expected to provide monthly public updates on their progress to IROC, and City Council.

The City Auditor conducts a risk assessment process to identify, measure, and prioritize the City's potential audits (auditable units) based on the level of risk to City operations. As part of the annual audit work plan, the Office of the City Auditor completed its audit of the Water Meter Cover Replacement Program in August 2018 and the City Audit Committee reviewed the audit on September 12, 2018. The audit's findings concluded that there were delayed responses to box and lid maintenance issues resulting from a lack of management oversight and accountability for this section within the Water Construction Maintenance Division as well as a variety of processing inefficiencies and inadequate planning. A review by the Department showed a backlog of box and lid repairs at 19,341 connections as of September 2018, of which 5,000 were found to be incorrectly coded as needing repair, leaving a balance of 14,341 out of approximately 281,000 connections in the City as of November 15, 2018. The Department agreed with all the audit recommendations and expects to address the issues by April 30, 2019. Additionally, the Office of the City Auditor has also issued an audit start letter on August 24, 2018, for an audit of the Public Utilities Customer Support Division. This audit will focus on the call center section of the division that provides customer service to Department water and sewer customers, handles customer phone interactions via a variety of contact channels, and is responsible for customer billing, payment processing and public information. The current objective of the Office of the City Auditor for this audit is to determine the efficiency and effectiveness of the Customer Support Division call center, including call wait times and customer service.

While the audits, assessments, and investigations revealed areas where Department operations could be improved, they revealed no deficiencies in the Department's delivery of clean and safe water. Department responses to the audits and assessments may include internal operational changes to increase efficiency and effectiveness, but these changes are not expected to result in a material adverse impact on the Department's budget, Net System Revenues, rates or finances.

WATER SYSTEM SERVICE AREA AND FACILITIES

Water System Service Area

The Water System serves the City and certain surrounding areas, providing water to retail, wholesale, and recycled water customers. The Water System's service area covers 404 square miles, including 325 square miles of the City, and a population of approximately 1.4 million people as of January 1, 2018. The map that follows the Table of Contents of this Official Statement shows the boundaries of the service area of the Water System.

Retail Customer Base. The City has five types of potable retail customer groups, consisting of Single Family Residential ("SFR"), Multi-Family Residential ("MFR"), Non-Residential, Irrigation, and Temporary Construction. For information relating to recycled water customers, see "– Reclaimed Water Customer Base" below. For Fiscal Year 2018, retail customers accounted for approximately 92% of total water deliveries and represented approximately 96% of the revenues from total water sales. Wholesale delivery of water accounted for the remaining 8% of water deliveries. Of the Water System's roughly 281,000 retail service connections, approximately 91% are SFR and MFR accounts, which comprised approximately 58% of total water sales revenue in Fiscal Year 2018.

Single Family Residential. SFR refers to individual dwelling units served by a separate meter, and accounted for approximately 38.7% of total water sales revenues in Fiscal Year 2018.

Multi-Family Residential. MFR encompasses multi-family dwellings such as apartment or condominium complexes, in which two or more dwelling units share a meter, and accounted for approximately 19.7% of total water sales revenues in Fiscal Year 2018.

Non-Residential. Non-Residential users are comprised of a diverse group of customers and accounted for 22.3% of total water sales revenues in Fiscal Year 2018. These customers are treated equivalently in cost calculations and are assigned the same peaking factors. These customers also typically have lower peaking factors than residential customers due to their relatively consistent usage trend.

Irrigation. Irrigation customers consist of SFR, MFR, and Non-Residential accounts that are used solely for irrigation. These customers use water primarily to irrigate personal or business landscaping. This diverse group of customers accounted for 12.3% of total water sales revenue for Fiscal Year 2018.

Temporary Construction. Temporary construction refers to meters that are placed on fire hydrants during construction in order to provide water to the construction site until the installation of a permanent meter. Costs for these customers are usually higher than the average customer because of additional administrative costs associated with transient meters. This group of customers generated approximately 0.8% of total water sales revenue for Fiscal Year 2018.

Irrigation and Temporary Construction customers typically have high peak demands characterized by relatively large amounts of water used in short periods of time when compared to average usage. Peak usage is more costly to deliver than constant usage.

The following table sets forth the historical number of retail connections to the Water System for each year from Fiscal Years 2014 through 2018.

TABLE 2
HISTORICAL NUMBER OF RETAIL CONNECTIONS TO WATER SYSTEM
Fiscal Years 2014 through 2018
(Unaudited)

Customer Type	2014	2015	2016	2017	2018
Single Family Residential	223,006	223,629	224,354	224,861	225,158
Multi-Family Residential	30,159	30,202	30,313	30,364	30,406
Non-Residential [(1)]	16,985	17,069	17,056	17,075	17,091
Irrigation	8,130	8,262	7,741	7,787	7,816
Temporary Construction	414	463	505	551	552
Total	278,694	279,625	279,969	280,638	281,023
Percent Growth	0.26%	0.33%	0.12%	0.24%	0.14%

(1) "Non-Residential" consists of customers previously categorized as Commercial, Industrial or Outside City.
Source: Public Utilities Department, City of San Diego.

The following table sets forth the volume of water deliveries, organized by the type and source of water delivered, made by the Department to its customers for Fiscal Years 2014 through 2018.

TABLE 3
WATER DELIVERIES
Fiscal Years 2014 through 2018
(Unaudited; in AF)

Delivery Type	2014	2015	2016	2017	2018
Local Water	31,398.3	315.2	11,226.5	12,459.9	22,035.4
CWA Water	171,252.7	184,493.1	147,490.3	153,495.6	152,192.9
Recycled Water	7,225.0	6,865.7	5,510.6	5,926.8	7,433.1
Total Water Deliveries	209,876.0	191,674.0	164,227.4	171,882.3	181,661.4

Source: Public Utilities Department, City of San Diego.

The following table sets forth the 10 major retail customers of the Water System for Fiscal Year 2018. These customers provided approximately 11% of the total sales revenues for such Fiscal Year.

TABLE 4
MAJOR RETAIL CUSTOMERS
Fiscal Year 2018
(Unaudited)

Customers	Millions of Cubic Feet	Billings	% of Total Sales Revenues
City of San Diego	428.94	$24,498,817	4.44%
United States Navy	197.06	11,359,236	2.06
San Diego Family Housing LLC	86.18	5,790,178	1.05
University of California San Diego	91.21	5,365,597	0.97
San Diego Unified School District	50.57	3,742,532	0.68
Other Federal Agencies [(1)]	57.09	2,883,495	0.52
The Irvine Co.	38.67	2,538,867	0.46
California Department of Transportation	44.49	2,667,865	0.48
CP Kelco	36.87	2,096,308	0.38
San Diego Zoo	28.37	1,634,525	0.30
Total [(2)]	**1,059.46**	**$62,577,420**	**11.35%**

(1) Excludes the United States Navy.
(2) Figures may not add to total due to independent rounding.
Source: Public Utilities Department, City of San Diego.

Wholesale Treated Water Customer Base. The City currently sells and delivers potable water on a wholesale basis to the California-American Water Company ("Cal-American") and the Otay Water District (the "OWD"). The City also treats and delivers potable water to the City of Del Mar ("Del Mar"). Del Mar initially purchases untreated water directly from CWA, which water is delivered for the benefit of Del Mar to the City's Miramar Water Treatment Plant. Del Mar then pays its apportioned expenses to the Department for treating and pumping the water to Del Mar's connection. As a result, deliveries to Del Mar are included in the total deliveries of potable water by the City, but are not

considered to be a component of retail water sales. Deliveries to Del Mar totaled 1,065 AF in Fiscal Year 2018.

California-American Water Company (Cal-American). Since 1912, the City has been selling and delivering treated water to Cal-American, which in turn provides water to the cities of Coronado and Imperial Beach, as well as a portion of the City. The City's obligation to sell and deliver water to Cal-American and its customers was assumed by the City upon its original acquisition of the Water System. The City's agreement with Cal-American has been subsequently amended to establish minimum and maximum amounts of treated water that may be purchased by Cal-American from the City, an average system delivery and a supply price methodology, which incorporates all of the City's integrated system-wide costs (*i.e.*, the costs associated with treatment, storage and pumping of the treated water supplied to Cal-American), including 60% of the water purchase replacement costs, 17% of the transmission and distribution costs associated with usage of mains that are 16 inches and larger, and a proportionate share of debt service for capital costs of the Water System. For Fiscal Year 2018, the City made approximately 5.7% of its total water deliveries to Cal-American and such sales represented approximately 3.6% of the revenues from total sales of water. The rates established within the City's agreement with Cal-American are adjusted at the same rate, and for the same period of time, as the rate and term set for City rate payers under the current rate case.

Otay Water District (OWD). In 1999, the City entered into an agreement with OWD to deliver up to 10 mgd of surplus treated water, which deliveries began in November 2005. The City's Otay Water Treatment Plant ("OWTP") is capable of producing treated water in excess of the amounts needed by the Water System customer base traditionally serviced by OWTP. The amounts paid by OWD for such treated water are determined in part by allocating to the City and OWD, based on the amount of treated water produced for each, the projected costs and expenses of all operations, maintenance and overhead, capital improvements, repairs and replacements under $100,000 to be incurred for, or at, OWTP. This cost per AF, as determined pursuant to the preceding sentence, is added to the raw water rate, to determine the projected actual cost to OWD for the next succeeding Fiscal Year. Pursuant to the agreement, OWD may elect to pay its proportional share of costs to expand OWTP to meet its future treated water demands, estimated to be from 10 to 20 mgd. Any expansion would be subject to the City's discretion and the execution of a separate agreement. OWD has historically represented a small portion of the City's total water deliveries. In Fiscal Year 2018, OWD purchased 2.6 AF of potable water, which represents less than 0.001% of total deliveries for the Fiscal Year.

Recycled Water Customer Base. Recycled water (also referred to as reclaimed water) is produced from wastewater processed at water reclamation plants owned and operated by the City as part of the City's Wastewater System. Since 1997, the recycled water produced by the City has been carefully monitored by City and State health officials and water quality-control agencies to ensure that it meets all federal, State, and local water quality standards, including the safety standards applicable to water coming into human contact set forth under Title 22 of the California Code of Regulations, and is suitable for irrigation, industrial, and other non-potable uses. The City has three recycled wholesale customers. The City began billing OWD and the Olivenhain Municipal Water District for recycled water in Fiscal Year 2007. The City also provides recycled water to the City of Poway under the terms of an agreement entered into in 1998. The City has 728 (723 retail and 5 wholesale) Recycled Water System connections. For Fiscal Year 2018, retail and wholesale recycled water customers accounted for approximately 2.7% of the revenues from total sales of water.

Existing Water System Facilities

The Water System consists of nine raw water storage reservoirs, three water treatment plants, 29 treated water storage facilities, and approximately 3,300 miles of water transmission and distribution

lines. Water is transported from the treatment plants through the transmission and distribution system to supply approximately 281,000 metered service connections. The Water System includes 129 pressure zones that are gravity supplied, pressure reduced via 384 pressure regulating stations, or pressure boosted via 49 water-pumping stations.

Raw Water Reservoirs. The City has nine reservoirs with a total capacity of 569,021 AF, of which, the City has rights to 376,042 AF of total storage (the remaining 192,979 AF of capacity belonging to CWA and other local water agencies). As of June 30, 2018, the City has 154,090 AF of water in storage, or 41% of total City storage capacity of 376,042 AF. The following table outlines each of the nine reservoirs' total capacity, City owned capacity, and current City storage. See "Reservoir Storage Rights" immediately following this table.

TABLE 5
RAW WATER RESERVOIRS
(As of June 30, 2018)
(Amounts in AF)

Reservoir	Total Storage Capacity (A)	City Storage Capacity (B)	Current City Storage Levels (C)	Current City Storage Levels to City Storage Capacity (C/B)	Current City Storage Levels to Total Storage Capacity (C/A)
Barrett	34,806	34,806	11,742	34%	34%
El Capitan[(1)]	112,807	102,807	24,724	24	22
Lake Hodges[(1)]	30,633	5,317	6,126[(3)]	115	20
Lake Murray	4,684	4,684	4,045	86	86
Lower Otay	49,849	49,849	32,053	64	64
Miramar	6,682	6,682	5,521	83	83
Morena	50,694	50,694	3,645	7	7
San Vicente[(1)]	249,358	91,695	53,181	58	21
Sutherland	29,508	29,508	13,053	44	44
Total	**569,021[(2)]**	**376,042**	**154,090**	**41%**	**27%**

(1) The El Capitan, Lake Hodges, and San Vicente Reservoirs have shared storage rights with other Agencies and Water Districts.

(2) Figure includes approximately 2% - 5% of total amount of water in storage that is inaccessible due to reservoir outlets being abandoned, blind flagged, or silted.

(3) Reflects the temporary storage of water in excess of City contracted capacity; overage is expected to be drawn down.

Source: Public Utilities Department, City of San Diego.

The Lower Otay Reservoir, Barrett Reservoir and Morena Reservoir (135,349 AF combined total capacity) service OWTP in south San Diego; the El Capitan Reservoir, San Vicente Reservoir, Sutherland Reservoir and Lake Murray Reservoir (396,357 AF combined total capacity) service the Alvarado Water Treatment Plant (the "AWTP") in central San Diego; and the Miramar Reservoir (6,682 AF total capacity) services the Miramar Water Treatment Plant (the "MWTP") in north San Diego. Lake Hodges Reservoir can service all three City water treatment plants, and San Vicente Reservoir can also service OWTP and MWTP via CWA aqueduct facilities.

According to City Council policy, the City shall have approximately 7.2 months of the annual (rolling 12 months) requirement of the City's demand available in primary water storage facilities. For Fiscal Year 2019 the requirement ranges from approximately 100,000 to 123,000 AF. This water is to be used during emergencies, in the event of substantial disruption or interruption of imported water service. The City has maintained, and continues to maintain, amounts at or above the requirement.

Reservoir Storage Rights. The City has executed agreements with various water districts and CWA to provide for storage capacity rights at the Lake Hodges Reservoir, San Vicente Reservoir, and the El Capitan Reservoir.

The City's infrastructure for connecting certain of the reservoirs stems in part from the Emergency Storage Project ("ESP") begun by CWA in 1998 to increase local storage and provide a more flexible conveyance system and water reliability to the region. See "WATER SUPPLY – Current Water Supply." The ESP is a system of reservoirs, pipelines and other facilities that connect existing sources of water in San Diego County. The ESP culminated with the completion of the San Vicente Reservoir ("SVR") Dam Raise project in September 2014, which resulted in CWA owning all 157,663 AF of new reservoir capacity while the City retained the original capacity of 91,695 AF. The City maintains rights to all impounded runoff water into San Vicente Reservoir. CWA purchases imported water to fill its capacity in San Vicente Reservoir and is responsible for its share of evaporation and seepage.

CWA's expansion of the SVR and construction of the San Vicente Pipeline ("SVP") and Pump Station ("SVPS"), the Lake Hodges Pipeline and Pump Station, and the Olivenhain Pump Station, together with the City's arrangement with CWA in connection therewith, results in, among other things, the City attaining a larger inlet/outlet facility that allows for more than double the prior rates of inflow and outflow from SVR and the extension of the useful life of the original dam at least 100 years through 2114. In addition, the City continues to receive funding from CWA for a proportionate share of all future costs for operation, maintenance, rehabilitation and replacement of SVR, including the cost of water lost to evaporation and seepage.

In September 2014, an agreement was reached among the City, CWA and the Santa Fe Irrigation District and the San Dieguito Water District (the "SFSD Districts") which established new storage rights allocations in Lake Hodges and requires the SFSD Districts to contribute to their proportionate share of all future costs for operation, maintenance, rehabilitation and replacement expenses in Lake Hodges. The Department operates the reservoir to maximize local water use and typically drafts its full share, often leaving the City's balance near zero. Finally, pursuant to an agreement between the City and Helix Water District ("Helix"), Helix can have in storage up to 10,000 AF of water in El Capitan Reservoir as captured from runoff and water transfers from Cuyamaca Reservoir.

Water Treatment Plants. The Department maintains and operates three water treatment plants with a combined rated capacity of 378 mgd through which potable water is supplied. Supplemental treated supplies from CWA are used to help operate the distribution system reliably and efficiently. While all three plants have been upgraded, only the Alvarado Plant has been permitted to its new rated capacity. The Miramar and Otay plants, although substantially complete, require some additional improvements, studies and certification from the SWRCB's Division of Drinking Water ("DDW") before they can be rated as such. The increased capacity will improve the City's ability to treat raw water, thereby further reducing the need to purchase treated water, while providing capacity for customer growth. Of the total of approximately 154,600 AF of water purchased from CWA during Fiscal Year 2018, approximately 18,460 AF was treated water.

Alvarado Water Treatment Plant (AWTP). The AWTP was originally constructed in 1951. Several hydraulic improvements constructed in the mid-1970's and additional upgrades completed recently increased the plant's rated capacity from 120 mgd to 200 mgd. The AWTP is located next to Lake Murray Reservoir near Interstate 8 and serves the Central City area from National City to the San Diego River.

Miramar Water Treatment Plant (MWTP). The MWTP was originally constructed in 1962 and has a current rated capacity of 144 mgd. The MWTP is located next to Miramar Reservoir off

Interstate 15. The MWTP provides drinking water to an estimated 500,000 people in the general area north of the San Diego River. To address future demands, the various upgrades to the MWTP, with some additional improvements and supporting studies will enable the City to increase the MWTP's capacity to 215 mgd, upon the approval of the DDW. The current rated capacity meets the current demand. Expansion of the raw water aqueducts by CWA has provided the MWTP access to water from San Vicente and Lake Hodges Reservoirs.

Otay Water Treatment Plant (OWTP). OWTP started operations in 1914 with a 15 mgd capacity. In 1971, the City upgraded OWTP with the addition of a clarifier and eight self-backwashing pressure filters. Subsequent improvements to the plant began in 1981 with the replacement of the pressure filters with eight gravity filters and a new operations building. In 1989, OWTP was upgraded to its current configuration and, after major renovations and process improvements, the plant's capacity increased to 34 mgd. OWTP provides water to the southern part of the City of San Diego and water purveyors servicing southern San Diego County. Consideration is being given to upgrading OWTP's rated capacity to 40 mgd. Further studies and additional upgrades may be required to reach the higher rated capacity.

The following table summarizes the capacity and demands of the three Water Treatment Plants.

TABLE 6
CAPACITY AND DEMAND OF WATER SYSTEM WATER TREATMENT PLANTS
(In mgd)
As of June 30, 2018

Water Treatment Plant	Original Design Capacity	Current Rated Capacity	Future Rated Capacity[(1)]	Current Average Demand[(2)]	Current Peak/Max Demand[(2)]
Alvarado	66	200	200	74.86	98.30
Miramar	100	144	215	58.88	92.47
Otay	40	34[(3)]	40	16.00	26.68
Total	**206**	**378**	**455**	**149.75**	**217.45[(4)]**

(1) The Otay and Miramar plants require additional improvements, and/or further studies, followed by approval by the DDW to reach their Future Rated Capacity. Additional improvements include the $38 million Miramar Clearwell Project expected to be complete by Fiscal Year 2021.

(2) Current Demand data calculated for Fiscal Year 2018.

(3) The Otay plant is not permitted to operate at its originally designed capacity. Among other things, certain improvements would be necessary to satisfy permitting requirements.

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

Source: Public Utilities Department, City of San Diego.

Treated Water Storage Facilities. The Department maintains and operates 29 treated water storage facilities, including steel tanks, standpipes, concrete tanks, and rectangular concrete reservoirs. These water storage facilities are used to regulate system pressure, provide peaking and emergency supply, and provide level control of pump stations. Capacities vary for these facilities from less than 0.5 million gallons to 35 million gallons and in the aggregate hold a daily total of approximately 280 million gallons.

Delivery System. The Water System consists of approximately 3,300 miles of transmission and distribution pipelines, including transmission lines up to 84 inches in diameter and distribution lines as small as four inches in diameter. Transmission lines are pipelines with larger diameters that convey raw water to the water treatment plants and convey treated water from the water treatment plants to the treated

water storage facilities. Distribution lines are pipelines with smaller diameters that directly service the retail users connected to a meter.

The Department also maintains and operates 49 water pump stations that deliver treated water from the water treatment plants to over 281,000 metered service connections in over 129 different pressure zones. In addition, the Department maintains several emergency connections to and from neighboring water agencies, including the Santa Fe Irrigation District, the Poway Municipal Water District, Cal-American, the Sweetwater Authority ("SWA") and the OWD.

As of June 30, 2018, the City's average daily water use for Fiscal Year 2018, including Del Mar and Cal-American deliveries, was approximately 166 mgd, with peak day demands as high as 218 mgd. These amounts are significantly lower than the recent past due to the unprecedented amount of conservation achieved by the citizens of San Diego brought on by the extended drought. The City's three Water Treatment Plants provided 150 mgd, or 89.7%, of average demand and 217 mgd, or 99.5%, of peak demand. Due to current operational limitations with respect to the distribution system, City average and peak daily water demands are met with a combination of Department-treated water and treated water supplied by CWA primarily through four metered treated water connections.

Utility Costs

The Water System is supplied with gas and electricity by San Diego Gas & Electric Company ("SDG&E"). Although SDG&E's electric rates have increased slightly more than 9% per year since 2014, the Department's overall gas and electric expenses have remained consistent at approximately 1.5% of total operating expenditures. Based on the Fiscal Year 2019 Adopted Budget, such expenditures are budgeted at approximately 1.5% of the total operating budget.

WATER SUPPLY

Certain of the information set forth under this caption has been obtained from publicly available sources other than the City, which the City and the Authority have no reason to believe is not accurate, including, without limitation, CWA's Official Statement, dated June 7, 2016, relating to its Subordinate Lien Water Revenue Refunding Bonds, Series 2016S-1, CWA's Continuing Disclosure Report for fiscal year ended June 30, 2017, reports to CWA's Imported Water Committee, MWD's Official Statement, dated June 5, 2018, relating to its Subordinate Water Revenue Refunding Bonds, 2018 Series A and Subordinate Water Revenue Bonds, 2018 Series B, and the CAFRs and other public financial documents of CWA and MWD. Such information necessarily represents abbreviated and summarized forms of such other sources of information. Such information is not guaranteed by the City or the Authority as to its accuracy or completeness and no representation is made as to the sufficiency of such information for all purposes or the absence of material adverse changes in such information subsequent to the date of the respective publicly available source document. In addition, CWA and MWD each periodically files their respective official statements and disclosure reports with the MSRB in connection with their respective publicly offered bonds. Such official statements and disclosure reports contain, among other things, information on CWA, CWA's water supply and CWA's rates and charges and MWD, MWD's water supply and MWD's rates and charges. Such official statements and disclosure reports are available from the MSRB but are not incorporated by reference herein and none of CWA, MWD or the Underwriters assume any responsibility for the completeness or accuracy thereof. Neither CWA nor MWD has participated in the preparation of this Official Statement. Neither CWA nor MWD is obligated in any manner for the payment of principal of or interest on the 2018 Bonds and neither has provided or will provide any certifications regarding this Official Statement, nor has CWA or MWD made any undertaking for the benefit of the owners and beneficial owners of the 2018 Bonds to file any information with the MSRB.

Current Water Supply

The Water System typically receives approximately 85-90% of its water supply from water provided by CWA, with the balance coming from local runoff, non-potable recycled water and groundwater. As a wholesaling entity, CWA has no retail customers, but serves only its member agencies. CWA's current largest supply source is imported water primarily from the Colorado River. Most of CWA's imported water has historically been purchased from MWD, although CWA's percentage share of water purchases from MWD has been declining. MWD obtains its water supply from two primary sources: the Colorado River and the State Water Project.

CWA also imports proprietary, high-priority Colorado River water supplies directly. These supplies consist of up to 200,000 AFY of conserved agricultural water transferred from the Imperial Irrigation District ("IID"), and an additional 80,000 AFY of conserved water made available through the lining of the Coachella Canal and the All-American Canal. These imported water sources were made available to CWA beginning in 2003 pursuant to the terms of the herein described Quantification Settlement Agreement (the "QSA") and supplies are transported to CWA via MWD's aqueduct pursuant to an exchange agreement for a negotiated wheeling rate that has been disputed by CWA in continuing litigation. The QSA established a slow ramping up of deliveries from IID to CWA, starting with an initial delivery of 10,000 AF in 2003 and culminating with 200,000 AFY beginning in 2021. See "– San Diego County Water Authority – Additional Allocations of Colorado River Water."

Additionally, pursuant to a long-term Water Purchase Agreement between CWA and Poseidon Water, a water project development company, CWA will purchase 48,000 to 56,000 AFY of desalinated seawater from the Carlsbad Desalination Project ("Carlsbad Project"). The Carlsbad Project, which opened on December 14, 2015, further diversifies the region's portfolio with new drought-proof water supplies. Together with the conservation achieved as a result of the 2015-16 emergency conservation regulations, MWD supplies are expected to represent 19% or less of the regional supply portfolio by 2025.

During Calendar Year 2017, out of a total of 411,000 AF of CWA supplies, approximately 181,000 AF (44%) was received from MWD while approximately 180,000 AF came from CWA's conserved water purchases from IID and the canal linings projects undertaken pursuant to the QSA (44%). The remainder of CWA supplies were received from the Carlsbad Project (7%) and previously purchased supplies taken from storage reservoirs (5%). As the water transfers from IID increase to a total of 200,000 AF by 2021 and with the development of local supplies at the retail water supplier level (such as the Pure Water Program), the amount of water purchased from MWD will continue to be reduced as will its percentage of total CWA supplies.

The following table sets forth the City's local water production and CWA supplied water for Fiscal Years 2014 through 2018.

TABLE 7
WATER SUPPLIES FOR THE CITY OF SAN DIEGO
Fiscal Years 2014 through 2018
(In AF)

Fiscal Year	Local Supplies	CWA Water Supplies	Total
2014[(1)]	38,623	171,253	209,876
2015[(2)]	7,181	184,493	191,674
2016	16,738	147,490	164,228
2017	18,387	153,496	171,883
2018	29,468	152,193	181,661

(1) 14,770 AF of local supplies was water purchased from CWA, and placed into storage resulting in a net of 23,853 AF of local supply being used.

(2) The 7,181 AF of local supply was purchased earlier in the year from CWA, put into storage, then drafted later in the year to satisfy demand.

Source: San Diego County Water Authority Comprehensive Annual Financial Reports for Fiscal Years 2014 through 2018.

The MWD Act provides a preferential right for the purchase of water by each of its constituent agencies, which includes CWA. This preferential right is calculated using a formula that has been the subject of litigation. Based on the formula, which was revised subsequent to the litigation, CWA has a statutory preferential right to approximately 24.22% of MWD's total supply as of June 30, 2018. CWA estimates that with an MWD reliable supply of 1.75 million acre feet CWA would have access to 423,850 acre feet, which is in excess of CWA's projected needs for reliable supplies in the event of shortages. CWA's official planning forecast of purchases of future MWD water is between 193,000 and 265,000 in 2025 and may be as low as 10,000 AF in 2035, depending upon the amount of future local supply implementation by CWA's member agencies. MWD has represented to CWA that it will provide reliable water supplies notwithstanding preferential rights.

In addition to its efforts to diversify water supply sources, CWA has been increasing local storage of freshwater supplies through the ESP. See "WATER SYSTEM SERVICE AREA AND FACILITIES – Existing Water System Facilities – Reservoir Storage Rights." Completed in 2014, CWA raised the dam at the City's San Vicente reservoir by 117 feet to expand storage at the reservoir by more than 157,000 AF. Despite drought conditions, CWA filled its portion of the reservoir's capacity, in large part due to the success of its long-term supply diversification strategy. See "WATER SYSTEM SERVICE AREA AND FACILITIES – Existing Water System Facilities – Raw Water Reservoirs." The ESP also provided for the construction (in 2003) of additional storage at the Olivenhain reservoir (24,000 AF of emergency storage) and CWA executed an out-of-region groundwater basin storage rights agreement with the Semitropic Water Storage District, one of the largest groundwater banking systems in the world. CWA has storage rights at Semitropic's Original Water Bank (OWB – 30,000 AF) and Semitropic-Rosamond Water Bank Authority (Bank Authority – 40,000 AF). Currently, CWA has 16,117 AF of water stored in the OWB and no water stored in the Bank Authority. Additionally, MWD completed construction of the Diamond Valley Lake reservoir in 1999, providing an additional 810,000 AF of regional storage. The combined increase of water storage in the region along with supply diversification strategies at both the local and regional levels has contributed to much greater water supply reliability in the San Diego region than would have otherwise been possible.

Wholesale Water Rates

CWA charges a volumetric rate that includes both a commodity rate and a transportation rate, both of which have been increasing, as indicated in the table below.

TABLE 8
CWA WATER SUPPLY RATES[1]
Calendar Years 2015 through 2019
(Per AF)

	Municipal & Industrial (M&I) Rates		
Calendar Year	**Untreated**	**Treated**	**Transportation Rate**
2015	$764	$1,042	$101
2016	780	1,060	105
2017	855	1,145	110
2018	894	1,194	115
2019	909	1,185	120

(1) Rates shown are for volumetric charges only and do not include the additional fixed charges displayed in the following table.
Source: San Diego County Water Authority Board Meeting Documents.

In addition to the volumetric charges the City pays for imported water, both CWA and MWD also levy fixed charges on their member agencies. The following table demonstrates the fixed charges, which are component costs of imported water, paid, or to be paid, by the City to CWA and MWD, between calendar years 2015 and 2019.

TABLE 9
MWD AND CWA FIXED WATER SUPPLY COSTS
Calendar Years 2015 through 2019
($ Amounts in Thousands)

Calendar Year	2015	2016	2017	2018	2019
MWD Fixed Charges					
Capacity Reservation	$ 3,912	$ 4,338	$ 3,058	$ 3,330	$ 2,759
Readiness-to-Serve Charge[1]	10,720	9,346	7,910	6,965	6,384
CWA Fixed Charges					
Customer Service	10,170	9,781	9,867	9,928	9,952
Storage Charge	26,730	25,768	26,704	26,714	27,456
Infrastructure Access Charge	13,131	13,173	13,764	14,147	14,190
Supply Reliability Charge[2]	--	10,798	10,313	11,808	12,516
In Lieu Tax Payment[1]	1,898	2,000	2,096	2,238	2,386
Total Fixed Charges	**$ 66,561**	**$ 75,204**	**$ 73,712**	**$ 75,130**	**$ 75,643**

(1) Fiscal Year charge.

(2) A new fixed charge approved by the CWA Board and Member Agencies, designed to increase the fixed portion of CWA's water sales revenues to address their commitments to "Take or Pay" agreements for IID transfers and desalination minimum purchases. This charge acts as a revenue offset to CWA's volumetric charges, *i.e.*, it mitigates the volumetric charge increases, so that the total CWA revenue collected from rates is revenue neutral.

Source: San Diego County Water Authority Board Meeting Documents and Public Utilities Department, City of San Diego.

San Diego County Water Authority

CWA was organized on June 9, 1944, under the County Water Authority Act (the "CWA Act"). The primary mission of CWA is to provide its member agencies with a safe and reliable supply of imported water for domestic, municipal and agricultural uses. Pursuant to the CWA Act, CWA is authorized to acquire water and water rights within or outside the State and to develop, store, and transport such water for beneficial uses and purposes and to provide, sell and deliver water of CWA not needed or required for beneficial purposes of its member agencies to areas outside the boundaries of CWA. The CWA Act also authorizes CWA to exercise the power of eminent domain; to levy and collect taxes; to fix, prescribe, and collect rates or other charges for the delivery of water, use of facilities or property or provisions for service; and to fix in each Fiscal Year a water standby availability charge on land within the boundaries of CWA to which water is made available by CWA.

CWA's 24 member agencies deliver water to approximately 97% of San Diego County's 3.34 million residents throughout a service area that encompasses approximately 951,000 acres (1,486 square miles), covering the foothills and coastal areas of the westerly third of San Diego County. The City represents the largest land area (approximately 22%), the largest population (approximately 42%), and for Fiscal Year 2017 the highest assessed property value (approximately 49%) within CWA's service area. When CWA was established in 1944, its service area consisted of 94,707 acres. Growth has primarily resulted from the addition and annexation of additional service areas by member agencies.

The decision-making body of CWA is its 36-member Board of Directors. Each of the 24 member agencies of CWA has at least one representative on the CWA Board of Directors. Member agencies may appoint one additional representative for each additional 5% of total assessed value of property taxable by CWA within the public agency's boundaries. As a result, the City is entitled to representation by 10 directors (with 48.89% of the assessed property values), with one of those positions historically reserved for the Director of the Department or City Manager.

Under the CWA Act, a member agency's vote is based on its "total financial contribution" to CWA since CWA's organization in 1944. Total financial contribution includes all amounts paid in taxes, assessments, fees, and charges to or on behalf of CWA or MWD. The CWA Act authorizes each CWA Board of Directors member to cast one vote for each $5,000,000, or major fractional part thereof, of the total financial contribution paid by the member agency. Based on this formula, the City is entitled to 39.81% of the total vote as of January 1, 2018. For comparison, the Helix Water District has the second highest voting entitlement, with 6.78% of the vote as of January 1, 2018. It is the City's policy that at full CWA Board meetings, the City's delegates cast a block vote, meaning that all of the City's voting power supports the vote of the majority of its ten delegates.

Additional Allocations of Colorado River Water. Under applicable laws, agreements and treaties governing the use of water from the Colorado River, California is entitled to use 4.4 million AF of Colorado River water annually. The QSA was enacted in October 2003 to provide the State the means to implement water transfers and supply programs that will allow the State to live within the 4.4 million AF basic annual apportionment of Colorado River water. The QSA and its related water transfers and other agreements were signed by the United States Secretary of the Interior and representatives of various Indian tribes, the United States Bureau of Reclamation, the Coachella Valley Water District, the IID, MWD, and CWA. The QSA outlined how the State would reduce its overuse of Colorado River water over a fifteen-year period, however California has not taken any surplus water supplies since 2003, living within its 4.4 million AFY allocation. The QSA establishes Colorado River water use limits for IID, Coachella Valley Water District ("CVWD"), and MWD, provides for specific acquisitions of conserved water and water supply arrangements, for up to 75 years for the CWA/IID water transfer and other transfers, and 110 years for the canal lining water, and allows MWD to take surplus water pursuant to the

terms of Interim Surplus Guidelines that determine when surplus water is available for California, Arizona and Nevada. CWA's Colorado River Program manages the implementation of CWA's agreements under the QSA, including the water transfer agreement with the IID and the concrete lining of portions of the All-American and Coachella Canals. Under the QSA, CWA projects that it will receive 44% of its water supply from the water transfer and canal lining projects in Calendar Year 2017. Starting in 2018, the 100,000 AFY of IID transfers are scheduled to ramp up to 200,000 AFY by 2021. Based on CWA's 2015 UWMP (as herein defined) normal year resources mix, extrapolated to 2021 by taking the incremental difference between 2015 and 2020 and calculating an annual increase in demand in order to use the full QSA supplies capacity as a percentage of 2021 demand, it is projected that combined with the canal lining supplies, total QSA deliveries to CWA will provide 280,000 AFY by 2021, which would represent over 45% of CWA's projected total demand for its service area.

Pursuant to the QSA and its related agreements, CWA will be able to purchase up to 200,000 AFY of conserved water from IID beginning in 2021. The QSA provides that water saved through conservation measures in Imperial Valley will be transferred to CWA. This water is highly reliable because it comes from the IID's Colorado River Water Priority 3 allocation. See the table entitled "Priorities under the 1931 California Seven-Party Agreement" under "– The Metropolitan Water District of Southern California" below. These priorities are higher than MWD's fourth priority allocation of 550,000 AFY. This means that water will likely remain available for transfer even during drought periods. Implementation of the water transfer began in calendar year 2003 with a transfer of 10,000 AF of water. The quantities of water transferred will increase according to an agreed-upon delivery schedule, ultimately providing up to 200,000 AF of water in calendar year 2021. This amount will continue to be transferred between 2021 and as late as 2077. In calendar year 2019, CWA is projected to purchase 160,000 AF from the IID as part of the ramped-up schedule of deliveries.

Also pursuant to the QSA, CWA receives approximately 80,000 AFY of water conserved as a result of recently completed construction projects lining portions of the previously earthen All-American and Coachella Canals. The All-American Canal Lining Project yields approximately 56,200 AF of Colorado River water transfers per year to CWA and the Coachella Canal Lining Project yields approximately 21,500 AFY to CWA. The canal lining projects will reduce the loss of water that occurred through seepage and that conserved water will be delivered to CWA. The Coachella Canal Lining Project was completed in December 2006. The All-American Canal Lining Project began construction in June 2007 and was completed in April 2010, when its full yield of 67,700 AFY was made available to project beneficiaries. The IID has certain limited call rights to a portion of the conserved water, but exercise of call rights would extend the term of the deliveries to CWA. The cost of the canal lining projects was in large part paid by State funds.

Drought Contingency Plan. A drought on the Colorado River has created the possibility of the declaration of a water shortage by the U.S. Department of the Interior. See "WATER SUPPLY – The Metropolitan Water District of Southern California – Development of Lower Basin Drought Contingency Plan." If an "official shortage" is declared that is severe enough to require allocation reductions to IID, CWA would be required, under the CWA/IID water transfer agreement, to take a pro-rata reduction to its water transfer supplies. CWA's QSA supplies, however, will likely be insulated from the impacts of such a shortage because (1) Arizona and Nevada would experience cutbacks before California and (2) should California experience cutbacks, CWA's QSA supplies would benefit from IID's high priority status within California (See the Table below, entitled "Priorities Under the 1931 California Seven-Party Agreement").

The Drought Contingency Plan (the "DCP") described herein provides incentives for water to be left in storage in Lake Mead under what is known as Intentionally Created Surplus ("ICS") to reduce the probability of reaching critical water levels in Lake Mead that would lead to severe reductions to

Colorado River water deliveries. California parties reportedly intend to make DCP contributions through the conversion of existing ICS to DCP ICS. See "WATER SUPPLY – The Metropolitan Water District of Southern California – Development of Lower Basin Drought Contingency Plan." CWA currently lacks a designated storage account to use in making such DCP contributions, but is eligible to participate in the ICS program for up to 280,000 AFY in accordance with agreements with the Secretary of the Interior. CWA is seeking to establish a subaccount through MWD in order to have a mechanism through which to participate in the ICS program. It is expected that CWA would use such a subaccount to store at least some of its QSA supplies in Lake Mead, thereby eliminating the need to transport QSA supplies via MWD and at least temporarily reduce wheeling costs.

Salton Sea. Environmental impacts of QSA water transfers have been mitigated since 2003, with the QSA joint powers authority spending more than $130 million to date on such efforts. The majority of funds have been spent on mitigation water to the Salton Sea to offset salinity and elevation impacts from QSA water transfers under the assumption that on-farm water conservation would result in lower tail-water return flows to the Salton Sea. In accordance with various agreements and permits, mitigation water was a requirement for the first 15 years of QSA water transfers until ending as scheduled in December 2017. It is expected that CWA will seek assurances that the LBDCP (as herein described and defined) will delineate between any environmental impacts to the Salton Sea resulting from QSA water transfers and any impacts resulting from additional programs in connection with the LBDCP.

CWA Action on Supply Costs. On June 11, 2010, CWA filed a complaint, *San Diego County Water Authority v. The Metropolitan Water District of Southern California et al*, alleging that the rates adopted by MWD's Board of Directors on April 13, 2010, misallocate State Water Contract costs to the System Access Rate and the System Power Rate, and thus to charges for transportation of water, and that this results in an overcharge to CWA by at least $24.5 million per year. The complaint also challenged the legality of MWD's Water Stewardship Rate, which funds water conservation and local water supply development programs, as applied to transportation costs, and the constitutionality of MWD's Rate Structure Integrity ("RSI") clause. The RSI clause was incorporated into water conservation and local water supply incentive agreements and required termination of funding under those programs if a party to the contract initiated litigation challenging MWD water rates. MWD utilized the RSI clause in 2011 when it denied CWA and its member agencies access to funding under these programs. CWA subsequently filed lawsuits, containing substantially similar allegations, in 2012, 2014, and 2016, each challenging the validity of MWD's rates and charges effective for the following two calendar years. The 2016 complaint also challenged the legality of MWD's Water Stewardship Rate as applied to all its full service customers and not only in its application to transportation.

In April 2014, San Francisco Superior Court Judge Curtis E.A. Karnow issued a final Statement of Decision in Phase 1 of CWA's legal challenge to rates set by MWD. Judge Karnow ruled that MWD's rates for 2011, 2012, 2013 and 2014 violate the cost of service requirements of California's Constitution, statutes, and common law. Specifically, Judge Karnow determined MWD's rates violate: Proposition 26 (2013-14 rates only); the State wheeling statute: Government Code Section 549997(a); and, common law rules that apply to rate-making. In August 2015, Judge Karnow issued a final Statement of Decision in Phase 2 of the litigation awarding CWA $188,295,602, plus interest, as damages and also determining that CWA is awarded greater preferential rights to MWD water. MWD and its other member agencies filed a notice of appeal of the trial court decision and the California Court of Appeals issued a final ruling on June 21, 2017.

The Court of Appeal upheld the trial court on several substantive issues including CWA's challenge to the Water Stewardship Rate and RSI clause but reversed the trial court on the issue of allocating State Water Project costs to the cost of transportation. On July 31, 2017, CWA filed a petition for review with the California Supreme Court. The California Supreme Court denied the petition on

September 27, 2017. As a result of the decision by the Court of Appeal, CWA member agencies are eligible for conservation and local supply programs funded by MWD and the Water Stewardship Rate while MWD is not charging the Water Stewardship Rate to CWA's QSA supplies for Calendar Years 2019 and 2020. Certain matters are still pending in each of the lawsuits, which have been remanded to the San Francisco Superior Court.

For detailed information on CWA's rate litigation, visit: http://www.sdcwa.org/MWDrate-challenge; provided that nothing contained in such website is incorporated into this Official Statement.

Local supply and storage programs. Both MWD and CWA have encouraged the development of additional water supply projects such as water recycling and groundwater projects by their member agencies. MWD offers incentives of up to $340[*] per AF for up to 25 years for recycled water and desalinated groundwater and seawater produced and beneficially reused within MWD's service territory through its Local Resources Program ("LRP"). CWA provides similar incentives through its Local Water Supply Development ("LWSD"). The purpose of the LRP and LWSD Programs is to promote the development of cost-effective local supply projects that prevent or reduce the demand for imported water and improve regional water supply reliability. The Programs reimburse member agencies for all or a portion of the difference between the actual per AF cost of producing local supplies, and the revenue generated by the participant through the sale of that AF of recycled water. The City's existing water recycling projects receive incentives from both MWD and CWA programs with contract terms expiring in 2023. CWA stopped accepting new applications for the LWSD program in 2009.

In Fiscal Year 2016, local supplies from recycled water, brackish groundwater recovery and seawater desalination (excluding savings achieved through water conservation) accounted for approximately 16% of the southern California region's water supply portfolio. MWD's LRP incentive continues to be an attractive option for future water supply projects such as the Pure Water Program. In December 2017, the City submitted an application for LRP funding to MWD via CWA for its Pure Water Program Phase 1 project. It is anticipated that MWD staff will present the City's LRP application for authorization by the MWD Board of Directors in Fiscal Year 2019, the timing of which may depend on the outcome of the current CWA rate litigation against MWD and related settlement discussions.

In 2013 (and published March 2014), CWA updated its 2003 Regional Water Facilities Master Plan, which updated anticipated regional demands according to the 20x2020 conservation framework and acknowledged that the next increment of regional water supplies, after the completion of the regional seawater desalination project at Carlsbad, is anticipated to be from potable reuse projects sponsored by its member agencies - primarily the Pure Water Program. As such, CWA's Master Plan identifies no new regional water supply projects until after 2025. However, a pilot seawater desalination project is authorized at the Pendleton Marine Base in the short term to study operational issues associated with subsurface intake of seawater.

The Metropolitan Water District of Southern California

General. CWA is a member agency of MWD. MWD was created in 1928, under authority of the Metropolitan Water District Act (California Statutes 1927, Chapter 429, as reenacted in 1969 as Chapter 209, as amended) (the "MWD Act"). MWD's primary purpose is to provide wholesale imported water to its member agencies. The MWD service area comprises approximately 5,200 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura.

[*] MWD's LRP incentive amount was increased from $250 to $340 per AF produced in October 2014 for new projects.

There are 26 member agencies of MWD, consisting of 14 cities, 11 municipal water districts and CWA. A Board of Directors, currently numbering 38 members, governs MWD. Each member agency has at least one representative on the MWD Board of Directors. Representation and voting rights are based upon the assessed valuation of property within each member agency. CWA has four members on the MWD Board of Directors and its voting entitlement is 17.48% as of August 15, 2017. Population projections prepared by the Southern California Association of Governments ("SCAG") in 2012 and SANDAG in 2013, as part of their planning process to update regional transportation and land use plans, show expected population growth of about 18% in MWD's service area between 2010 and 2035.

The water supply for MWD's service area is provided in part by MWD and in part by non-MWD sources available to members. Approximately 45% of the water supply for MWD's service area is imported water received by MWD from the Colorado River Aqueduct ("CRA") and the State Water Project. The balance of supplies to Southern California are provided by a variety of locally owned sources. CWA also imports water through the CRA as part of its QSA-related agreements and the City of Los Angeles imports water from the eastern watershed of the Sierra Mountains through the Los Angeles Aqueduct. The balance of water within the region is produced locally, primarily from groundwater supplies, water recycling, and surface runoff.

MWD's member agencies are not required to purchase or use any of the water available from MWD. Some agencies depend on MWD to supply nearly all of their water needs, regardless of the weather. Other agencies, with local surface water reservoirs or aqueducts that capture rain or snowfall, rely on MWD more in dry years than in years with heavy rainfall, while others, with ample groundwater supplies, purchase MWD water only to supplement local supplies and to recharge groundwater basins. The demand for supplemental supplies provided by MWD is dependent on water use at the retail consumer level and the amount of locally supplied and conserved water. Consumer demand and locally supplied water vary from year to year, resulting in variability in water sales. Future reliance on MWD supplies will be dependent, among other things, on local projects and the amount of water, if any, that may be derived from sources other than MWD. In recent years, supplies and demands have been affected by drought, water use restrictions, economic conditions, weather conditions and environmental laws, regulations and judicial decisions.

Historically, CWA has been the largest purchaser of water from MWD, however this is changing as CWA and its member agencies develop proprietary water supplies. In the fiscal year ended June 30, 2017, estimated water purchases, exchanges, and wheeling revenues from CWA represented approximately 19.5% of MWD's total water revenues. In addition, under an exchange agreement, MWD transported about 208,000 AF of CWA's independently obtained Colorado River water to CWA. See the information under the heading "San Diego County Water Authority" above for a discussion of CWA's QSA supplies.

MWD accrued approximately 1.54 million AF in total water transactions for the fiscal year ended June 30, 2017. MWD faces a number of challenges in providing adequate, reliable and high quality supplemental water supplies for Southern California. The City has observed the following, among other factors: (1) population growth within MWD's service area; (2) external competition for MWD's imported water supplies; (3) variable weather conditions, exacerbated by climate change; and (4) increased environmental and other regulations.

Supply deficiencies can occur during periods of drought. MWD'S long-term planning guidelines and strategy are set forth in its Integrated Water Resources Plan and its on-going resource and water supplies management approach is set forth in its Water Surplus and Drought Management Plan ("WSDM"). In times of prolonged or severe shortages, MWD manages its water supplies through implementation of its Water Supply Allocation Plan ("WSAP"), which provides a formula for equitable

distribution of available water supplies in case of extreme water shortages within MWD's service area and has been implemented three times since its adoption in 2008. Most recently, the MWD Board declared a Water Supply Condition 3 on April 14, 2015, and implemented the WSAP at a Level 3 Regional Shortage Level, effective July 1, 2015 through June 30, 2016. Implementation of the WSAP at a Level 3 Regional Shortage Level, and response to the Governor's Order (as herein defined) and related implementing regulations, reduced supplies delivered by MWD to its member agencies to approximately 1.6 million AF in Fiscal Year 2015-16. See "– CWA and MWD Actions in Response to Drought Conditions" below. Due to improved hydrologic conditions, on May 10, 2016, the MWD Board rescinded the WSAP, declared a Condition 2 Water Supply Alert, and decided not to implement the Water Supply Allocation Plan for Fiscal Year 2016-17. In April 2017, the MWD Board declared a Condition 1 Water Supply Watch, reflecting the continued improvement of hydrologic conditions and a forecasted record return of water to MWD's storage reserves. Based upon current hydrologic conditions and current SWP allocation estimates, MWD does not anticipate implementing the WSAP for Fiscal Year 2018-19 at this time.

Colorado River. The Colorado River was MWD's original source of water after MWD's establishment in 1928. MWD has a legal entitlement to receive water from the Colorado River under a permanent service contract with the Secretary of the Interior, resulting from an agreement dated August 18, 1931, among Palo Verde Irrigation District, Imperial Irrigation District, Coachella Valley County Water District, MWD, the City of Los Angeles, the City of San Diego and the County of San Diego. This and subsequent agreements establish respective water rights priorities among users. Water from the Colorado River and its tributaries is also available to other users in California, as well as users in the states of Arizona, Colorado, Nevada, New Mexico, Utah, and Wyoming (the "Colorado River Basin States"), resulting in both competition and the need for cooperation among these holders of Colorado River entitlements.

The CRA, which is owned and operated by MWD, transports water from the Colorado River approximately 242 miles from Lake Havasu to its terminus at Lake Mathews in Riverside County. Up to 1.25 million AFY may be conveyed through the CRA to MWD's member agencies, subject to availability of Colorado River water for delivery as described below.

Under applicable laws, agreements and treaties governing the use of water from the Colorado River, California is entitled to use 4.4 million AF of Colorado River water annually, plus one-half of any surplus that may be available for use collectively in Arizona, California, and Nevada as declared on an annual basis by the United States Secretary of the Interior.

In addition, under a 1944 treaty, Mexico has an allotment of 1.5 million AF of Colorado River water annually that may be curtailed under certain conditions or increased by 200,000 AF if water is available in excess of the requirements in the United States.

PRIORITIES UNDER THE 1931 CALIFORNIA SEVEN-PARTY AGREEMENT[1]

Priority	Description	Acre-Feet Annually
1	Palo Verde Irrigation District gross area of 104,500 acres of land in the Palo Verde Valley	3,850,000
2	Yuma Project in California not exceeding a gross area of 25,000 acres in California	
3(a)	Imperial Irrigation District and other lands in Imperial and Coachella Valleys [2] to be served by All-American Canal	
3(b)	Palo Verde Irrigation District – 16,000 acres of land on the Lower Palo Verde Mesa	
4	Metropolitan Water District of Southern California for use on the coastal plain	550,000
	SUBTOTAL	**4,400,000**
5(a)	Metropolitan Water District of Southern California for use on the coastal plain	550,000
5(b)	Metropolitan Water District of Southern California for use on the coastal plain [3]	112,000
6(a)	Imperial Irrigation District and other lands in Imperial and Coachella Valleys to be served by the All-American Canal	300,000
6(b)	Palo Verde Irrigation District – 16,000 acres of land on the Lower Palo Verde Mesa	
	TOTAL	**5,362,000**
7	Agricultural use in the Colorado River Basin in California	Remaining surplus

(1) Agreement dated August 18, 1931, among Palo Verde Irrigation District, Imperial Irrigation District, Coachella Valley County Water District, MWD, the City of Los Angeles, the City and the County of San Diego. These priorities were memorialized in the agencies' respective water delivery contracts with the Secretary of the Interior.

(2) The Coachella Valley Water District serves Coachella Valley.

(3) In 1946, the City, CWA, MWD and the Secretary of the Interior entered into a contract that merged and added the City and the County of San Diego's rights to storage and delivery of Colorado River water to the rights of MWD.

Source: MWD.

MWD holds the fourth priority right of 550,000 AFY and a fifth priority right of 662,000 AFY (after priority rights to 3,850,000 AF held by Palo Verde Irrigation District, Yuma Project in California, Imperial Irrigation District and the All-American Canal, and Palo Verde Irrigation District). MWD's fourth priority right is within California's basic annual apportionment of 4.4 million AF; however, the fifth priority right is outside of this entitlement and therefore is not considered a firm supply of water. Until 2003, MWD had been able to take full advantage of its fifth priority right as a result of the availability of surplus water and water apportioned to Arizona and Nevada that was not needed by those states. However, during the 1990's Arizona and Nevada increased their use of water from the Colorado River, and by 2002 no unused apportionment was available for California. In addition, severe drought in the Colorado River Basin reduced storage in system reservoirs, ending the availability of surplus deliveries to MWD. Prior to 2003, MWD could divert over 1.25 million AF in any year. Average annual net deliveries for 2008 through 2017 were approximately 959,000 AF, with annual volumes dependent primarily on programs to augment supplies, including transfers of conserved water from agriculture.

MWD has taken steps to augment its share of Colorado River water through agreements with other agencies that have rights to use such water. Under a 1988 water conservation agreement (as

amended, the "1988 Conservation Agreement") between MWD and the IID, MWD provided funding for IID to construct and operate a number of conservation projects that have conserved up to 109,460 AF of water per year that has been provided to MWD. In 2017, 105,000 AF of conserved water was made available by IID to MWD. In August 2004, MWD and the Palo Verde Irrigation District ("PVID") entered an agreement for a Land Management, Crop Rotation and Water Supply Program (the "PVID Program"), under which participating landowners in the PVID service area are compensated for reducing water use, which in turn makes available to MWD up to 133,000 AF of water in certain years. MWD participates in a number of projects related to the Intentionally Created Surplus ("ICS") program, which allows the Colorado River Basin States to store conserved water in Lake Mead.

Colorado River Operations, Shortage, and Surplus Guidelines. The Secretary of the Interior is vested with the responsibility of managing the mainstream waters of the lower Colorado River pursuant to federal law. Each year, the Secretary of the Interior is required to declare the Colorado River water supply availability conditions for the Colorado River Basin States in terms of "normal," "surplus" or "shortage" and has adopted operations criteria in the form of guidelines to determine the availability of surplus or potential shortage allocations among the Colorado River Basin States and reservoir operations for such conditions.

Under the Interim Surplus Guidelines, established by the Secretary of the Interior (as amended, the "Interim Surplus Guidelines") and extending through 2016, MWD initially expected to divert up to 1.25 million AF of Colorado River water annually from 2004 through 2016. However, an extended drought in the Colorado River Basin reduced these initial expectations. Subsequently, the Southern Nevada Water Authority ("SNWA") and MWD entered into an Agreement Relating to Implementation of Interim Colorado River Surplus Guidelines, in which SNWA and MWD agreed to the allocation of unused apportionment as provided in the Interim Surplus Guidelines and on the priority of SNWA for interstate banking of water in Arizona, and a storage and interstate release agreement under which SNWA can request that MWD store unused Nevada apportionment in California. In subsequent years, SNWA may request recovery of the stored water, which is currently 330,000 AF. However, MWD expects that SNWA will not request return of any of the stored water before 2022.

In November 2007, the Bureau of Reclamation issued a Final Environmental Impact Statement regarding new federal guidelines concerning the operation of the Colorado River system reservoirs, particularly during drought and low reservoir conditions. These guidelines, among other things, provide water release criteria from Lake Powell and water storage and water release criteria from Lake Mead during shortage and surplus conditions and provide a mechanism for the storage and delivery of conserved system and non-system water in Lake Mead. The Secretary of the Interior issued the final guidelines through a Record of Decision ("ROD"), which, together with the accompanying agreement among the Colorado River Basin States, protects reservoir levels by reducing deliveries during drought periods, encourages agencies to develop conservation programs and allows the Colorado River Basin States to develop and store new water supplies. The Colorado River Basin Project Act of 1968 insulates California from shortages in all but the most extreme hydrologic conditions. Consistent with these legal protections, under the guidelines, Arizona and Nevada are first subject to the initial annual shortages identified by the Secretary up to 500,000 AF.

The guidelines also created the ICS program, which allows the Colorado River Basin States to store conserved water in Lake Mead. Under this program, ICS water is eligible for storage in Lake Mead by MWD. The Secretary of the Interior delivers the stored ICS water to MWD in accordance with the terms of various delivery agreements between the United States and MWD. As of January 1, 2018, Metropolitan had an estimated 479,000 AF in its ICS accounts. These surplus accounts are made up of water conserved by fallowing in the Palo Verde Valley, projects implemented with IID in its service area, groundwater desalination, the Warren H. Brock Reservoir Project, the Yuma Desalting Plant pilot run,

and Intentionally Created Mexican Allocation converted to Binational ICS, which have not been delivered to the region.

Development of Lower Basin Drought Contingency Plan. CWA's Colorado River Board Representative stated in his October 2018 report to CWA's Imported Water Committee that, due to drought conditions in the Colorado River Basin, flows into Lake Powell fell to approximately one-third of average for the April-through-July period in 2018 and September's inflow was negligible. Federal officials have indicated that the U.S. Interior Department could declare a shortage in 2020. The Interim Surplus Guidelines governing current drought operations expire in 2026 and negotiations for the replacement guidelines are scheduled to begin in 2020.

Under existing legislation and guidelines, California does not face cutbacks due to its high priority rights in the Lower Basin (being the region comprised of those parts of the states of Arizona, California, Nevada, New Mexico, and Utah within and from which waters naturally drain into the Colorado River below Lees Ferry and all parts of these states that are not part of the Colorado River's drainage system but may benefit from water diverted from the Colorado River below Lees Ferry). Discussions amongst the Colorado River Basin States on a Drought Contingency Plan ("DCP"), an overlay to the Interim Surplus Guidelines, began in 2015 to help build elevation in Lake Mead and reduce the chance of a future shortage declaration through additional cutbacks, including to California. Each basin is working on its own DCP documents which will eventually culminate under an additional basin-wide agreement.

Lower Basin parties have formed working groups to resolve remaining issues and finalize numerous intra and interstate agreements and Lower Basin DCP by December 2018. In October 2018, a proposed Lower Basin DCP ("LBDCP") was announced in which California would reduce diversions earlier in a shortage than it would if the Lower Basin states strictly adhered to the water-rights reduction order under the applicable law, guidelines, and agreements regulating the use and management of the Colorado River. LBDCP components include DCP contribution amounts, rules for DCP ICS recovery, ICS flexibility, allowance for interstate banking during shortage years, and a commitment to protect or "backstop" elevation at 1,020 feet in Lake Mead.

Under the proposed DCP, Arizona and Nevada would continue to take the first reductions, which would be larger than outlined in 2007, and California would reduce its river diversions when Lake Mead levels reached 1,045 feet, which is earlier in the shortage than previously provided for, ranging between 200,000 to 350,000 AF depending on Lake Mead elevation. California's reductions are projected to represent a total contribution of 550,000 AF over the lifetime of the DCP through 2026 as determined by the United States Bureau of Reclamation's ("USBR") stress test hydrology modeling (average case) but could be as high as 1,750,000 AF (90th percentile case).

California parties reportedly intend to make DCP contributions through the conversion of existing ICS to DCP ICS. IID's cumulative cap for its share of California's DCP contributions would be 250,000 AF. IID has indicated it plans to cover this amount with existing stored ICS water in Lake Mead and MWD's storage system. In the event that the reductions exceed 250,000 AF, MWD has indicated that it would make the vast majority of additional DCP contributions on behalf of the California agencies. Additionally, the USBR would create 100,000 AF of system water annually. With the finalization of the LBDCP, the Binational Water Scarcity Contingency Plan ("BWSCP") under Minute 323 would also be triggered.

To incentivize additional conservation and storage in Lake Mead, the LBDCP would include greater flexibility for DCP ICS than the current rules for ICS outlined in the Interim Surplus Guidelines, including by increasing the maximum annual ICS creation volume for each Lower Basin state by 200,000

AFY, with sharing of the unused capacity amongst states extended from elevation 1,075 feet down to elevation 1,045 feet. The 1,020 feet "backstop" would be an agreed upon threshold in the LBDCP in which the Lower Basin parties would commit to "individual and collective actions" to prevent Lake Mead from declining below this level. Implementation would be established by the USBR's 24-month study projections. In any two successive years where Lake Mead's elevation is projected to be at or below 1,030 feet, the Lower Basin parties would agree to consult and determine which additional measures should be taken to prevent Lake Med from declining beyond the "backstop" of 1,020 feet.

Environmental Considerations. Several fish species and other wildlife species either directly or indirectly have the potential to affect Colorado River operations, thus changing power operations and the amount of water deliveries to the CRA. A number of species that are on either "endangered" or "threatened" lists under the Federal Endangered Species Act (the "Federal ESA") or the California Endangered Species Act (the "California ESA") are present in the area of the Lower Colorado River. To address this issue, a broad-based state/federal/tribal/private regional partnership, which includes water, hydroelectric power and wildlife management agencies in Arizona, California and Nevada, developed a multi-species conservation plan for the main stem of the Lower Colorado River (the Lower Colorado River Multi-Species Conservation Program or "MSCP"). The MSCP allows MWD to obtain federal and state permits for any incidental take of protected species resulting from current and future water and power operations of its Colorado River facilities and to minimize any uncertainty from additional listings of endangered species. The MSCP also covers operations of federal dams and power plants on the Colorado River.

Seismic Considerations. Portions of the CRA are located near earthquake faults, including the San Andreas Fault. The five pumping plants on the CRA have been buttressed to better withstand seismic events. Other components of the CRA are monitored for any necessary rehabilitation and repair. Supplies are dispersed throughout MWD's service area, and a six-month reserve supply of water normally held in local storage provides reasonable assurance of continuing water supplies during and following seismic events. MWD has developed an emergency plan that calls for specific levels of response appropriate to an earthquake's magnitude and location. However, no assurance can be made that a significant seismic event would not cause damage to project structures, which could thereby interrupt the supply of water from the CRA.

State Water Project. MWD's other major source of water is the SWP. The State-owned SWP is managed and operated by the DWR. The SWP transports Feather River water stored in, and released from Oroville Dam and unregulated flows diverted directly from the San Francisco Bay/Sacramento-San Joaquin Delta Estuary ("Bay-Delta") south via the California Aqueduct to four delivery points to MWD near the northern and eastern boundaries of MWD's service area. The total length of the California Aqueduct is 444 miles. MWD rights to SWP water are set forth in its State Water Contract (as amended, the "State Water Contract") with DWR. The State Water Contract, under a 100% allocation, would provide MWD 1,911,500 AFY. The 100% allocation is referred to as the contracted amount. The quantity of SWP water supply actually available for delivery each year is determined by both hydrology and operational considerations. Water supplies received from the SWP by MWD from 2004 through 2017, including its contracted water, water from water transfers, groundwater banking on the system and exchange programs, varied from a low of approximately 593,000 AF in calendar year 2015 to a high of approximately 1,800,000 AF in calendar year 2004. In calendar year 2017, DWR's allocation to MWD was 1,625,000 AF.

Upon expiration of the State Water Contract term (currently in 2035), MWD has the option to continue service under substantially the same terms and conditions. DWR and the SWP Contractors have signed an Agreement in Principle ("AIP") to extend the contract to 2085 and to make certain changes related to financial management of the SWP in the future. The AIP served as the "proposed project" for

purposes of environmental review under the California Environmental Quality Act (as amended, "CEQA"). DWR issued a Notice of Availability of the Draft Environmental Impact Report ("EIR") for the proposed project on August 17, 2016. The public review period ended October 17, 2016. State law requires DWR to make a presentation to the Legislature at an informational hearing at least 60 days prior to final approval of a State water supply contract extension. That hearing occurred on September 11, 2018. It is anticipated that DWR will certify the final EIR and issue its Notice of Determination.

Late each year, DWR announces an initial allocation estimate for the upcoming year, but may revise the estimate throughout the year if warranted by developing precipitation and water supply conditions. For example, in calendar year 2017, DWR's allocation to State Water Contractors was 85% of contracted amounts, or 1,625,000 AF, for MWD. For calendar year 2018, DWR's initial allocation estimate to SWP Contractors was announced on November 30, 2017, as 15% of contracted amounts, or 286,725 AF, for MWD. On January 29, 2018, DWR increased the allocation estimate to 20%. The allocation was increased again on April 24, 2018, to 30% and then again on May 21, 2018, to 35%. The current allocation estimate of 35% reflects recent precipitation, runoff, and existing storage in SWP conservation reservoirs, as well as other factors such as lower storage levels in Lake Oroville and federally mandated environmental restrictions imposed upon water deliveries from the Bay-Delta, including the biological opinions as discussed below. As in previous dry years, MWD may augment these deliveries using withdrawals from its storage programs along the SWP and through water transfer and exchange programs. In light of current water conditions in California and the estimated 2018 allocation, MWD expects that projected demands will roughly balance with available supplies.

Bay-Delta Regulatory and Planning Activities. In addition to being a source of water for diversion into the SWP, the Bay-Delta is the source of water for local agricultural, municipal and industrial needs, and also supports significant resident and anadromous fish and wildlife resources and important recreational uses of water. Both the SWP's upstream reservoir operations and its Bay-Delta diversions can at times affect these other uses of Bay-Delta water directly, or indirectly, through impacts on Bay-Delta water quality. A variety of proceedings and other activities are ongoing with the participation of various State and federal agencies, as well as California's environmental, urban and agricultural communities, in an effort to develop long-term, collectively-negotiated solutions to the environmental and water management issues concerning the Bay-Delta, and MWD actively participates in these proceedings. MWD cannot predict the ultimate outcome of any of the litigation or regulatory processes described below, but believes that a materially adverse impact on the operation of SWP pumps, MWD's SWP deliveries or MWD's water reserves could result.

The SWRCB is the agency responsible for setting water quality standards and administering water rights throughout California. SWRCB decisions can affect the availability of water to users of SWP water, including MWD. SWRCB exercises its regulatory authority over the Bay-Delta by means of public proceedings leading to regulations and decisions. These include the Bay/Delta Water Quality Control Plan ("WQCP"), which establishes the water quality standards and proposed flow regime of the estuary, and water rights decisions that assign responsibility for implementing the objectives of the WQCP to users throughout the system by adjusting their respective water rights permits. Since 2000, the SWRCB's Water Rights Decision 1641 ("D-1641") has governed the SWP's ability to export water from the Bay-Delta for delivery to MWD and other agencies receiving water from the SWP. See also "– State Water Project Operational Constraints" below.

In 2000, several State and federal agencies released the CALFED Bay Delta Programmatic Record of Decision ("CALFED ROD") and Environmental Impact Report/Environmental Impact Statement that outlined and disclosed the environmental impacts of a 30-year plan to improve the Bay-Delta's ecosystem, water supply reliability, water quality, and levee stability. The CALFED ROD

remains in effect and many of the State, federal, and local projects begun under the CALFED ROD continue.

In 2006, multiple State and federal resource agencies, water agencies, and other stakeholder groups entered into a planning agreement for the Bay-Delta Conservation Plan ("BDCP"). The BDCP was originally conceived as a comprehensive conservation strategy for the Bay-Delta designed to restore and protect ecosystem health, water supply, and water quality within a stable regulatory framework to be implemented over a 50-year time frame with corresponding long-term permit authorizations from fish and wildlife regulatory agencies. The BDCP includes both alternatives for new water conveyance infrastructure and extensive habitat restoration in the Bay-Delta.

In 2015, the State along with federal agencies proposed the "California WaterFix" and "California EcoRestore" as an alternative implementation strategy to the BDCP. California WaterFix is a stand-alone project intended to provide new conveyance facilities for the transportation of SWP and Central Valley Project water from the north Delta, principally from three new intakes through two 30-mile long tunnels running under the Delta, to the existing aqueduct systems in the south Delta. As originally conceived, California WaterFix would include only limited amounts of habitat restoration, generally only what is directly related to construction mitigation, and the associated costs of such mitigation which would be underwritten by the public water agencies participating in the California WaterFix project. Separately, under California EcoRestore, ecosystem improvements and habitat restoration more generally would be undertaken under a more phased approach than previously contemplated by the BDCP and would not be linked with the California WaterFix project or permits. Accelerated restoration actions totaling 30,000 acres of tidal marsh habitat were proposed to be undertaken in the coming decade to provide public benefits for listed fish in the Bay-Delta. Subsequent actions would be based on the proven merits of restoration. Depending on the manner of implementing the project, the benefits to MWD could be materially impacted.

The California WaterFix is expected to improve the reliability of Southern California's water delivery system by updating aging infrastructure. In addition to the more efficient and effective delivery of water supplies through the Delta, DWR has identified other benefits of the California WaterFix, including allowing for more operational flexibility to deliver water through the Delta, and enabling a more natural flow of rivers in the Delta to protect sensitive fish species. The California WaterFix would additionally help reduce the risks from a catastrophic seismic event in the Delta.

DWR estimates that it will take approximately 15 years to substantially complete the California WaterFix after commencement of construction. Completion of California WaterFix is subject to numerous lawsuits and other actions. In July 2017, DWR filed a validation action to legally establish its authority to issue revenue bonds to finance California WaterFix. More than a dozen public agencies and six environmental groups opposed the action. The project is subject to several lawsuits and additional lawsuits may be filed in the future. Additionally, on September 7, 2018, two organizations filed a reverse validation action alleging that the MWD Board's July 2018 authorization of funding for California WaterFix violated, among other things, State Constitutional restrictions on rates and property taxes and certain statutory limitations under MWD's enabling act. DWR has not yet commenced construction of the project. The outcome of the litigation cannot be known and could result in delays, cost increases, or cancellation of the project.

Based on DWR's preliminary estimates, the capital costs of the project will be approximately $17 billion (in 2017 dollars). In July 2018, MWD approved funding of up to 64.6%, approximately $10.8 billion, of the overall capital cost of the project. The MWD Board also approved three forms of financial support: (1) gap funding of the project in an amount up to $86 million, that is anticipated to be reimbursed with interest, (2) the incurrence of installment payment obligations to secure revenue bonds to be issued

by DWR, and (3) authorization to negotiate the acquisition of transfers of SWP water supplies in connection with the project and the acquisition of the remaining 33% unsubscribed capacity in the project from DWR. MWD has projected, based on a number of assumptions that may not comport with actual results, that the resulting impact upon overall water rates will be approximately 2.2% per year over the anticipated construction timeline, or a cumulative 33% after 15 years. The incremental projected costs associated with participation by MWD in the California WaterFix are estimated to increase MWD's long-term projected average 3.0% annual rate increases by approximately 1.1% to 4.1%.

Endangered Species Act Considerations. The listing of several fish species as threatened or endangered under the Federal ESA or the California ESA have adversely impacted SWP operations and limited the flexibility of SWP operations. Currently, five species (the winter-run and spring-run Chinook salmon, Delta smelt, North American green sturgeon and Central Valley steelhead) are listed under the ESAs. In addition, on June 25, 2009, the California Department of Fish and Game, now the California Department of Fish and Wildlife ("CDFW"), declared the longfin smelt a threatened species under the California ESA.

The Federal ESA requires that before any federal agency authorizes funds or carries out an action that may affect a listed species or designated critical habitat, it must consult with the appropriate federal fishery agency to determine whether the action would jeopardize the continued existence of any threatened or endangered species, or adversely modify habitat critical to the species' needs. The result of the consultation is known as a "biological opinion." In the biological opinion the federal fishery agency determines whether the action would cause jeopardy to a threatened or endangered species or adverse modification to critical habitat, and recommends reasonable and prudent alternatives or measures that would allow the action to proceed without causing jeopardy or adverse modification. The biological opinion also includes an "incidental take statement." The incidental take statement allows the action to go forward even though it will result in some level of "take," including harming or killing some members of the species, incidental to the agency action, provided that the agency action does not jeopardize the continued existence of any threatened or endangered species and complies with reasonable mitigation and minimization measures recommended by the federal fishery agency.

The United States Fish and Wildlife Service released a biological opinion on December 15, 2008 on the impacts of the SWP and the federal Central Valley Project on Delta smelt. On June 4, 2009, the National Marine Fisheries Service released a biological opinion for salmonid species. The water supply restrictions imposed by these biological opinions on Delta smelt and salmonid species have a range of impacts on MWD's deliveries from the SWP, depending on hydrologic conditions. The impact on total SWP deliveries to State Water Contractors attributable to the Delta smelt and salmonid species biological opinions combined is estimated to be one million acre-feet in an average year, reducing total SWP deliveries to State Water Contractors from approximately 3.3 million AF to approximately 2.3 million AF for the year under average hydrology. Reductions are estimated to range from 0.3 million AF during critically dry years to 1.3 million AF in above normal water years. Total SWP delivery impacts to MWD for calendar years 2008 through 2017 are estimated to be 2.1 million AF.

State Water Project Operational Constraints. DWR has altered the operations of the SWP to accommodate species of fish listed under the Federal ESA and California ESA. These changes in project operations have limited the flexibility of the SWP and adversely affected SWP deliveries to MWD. SWP operational requirements may be further modified in the future under new biological opinions for listed species under the Federal ESA or by the issuance by the California Department of Fish and Wildlife ("CDFW") of incidental take authorizations under the California ESA. Additionally, new litigation, listings of additional species or new regulatory requirements could further adversely affect SWP operations in the future by requiring additional export reductions, releases of additional water from storage or other operational changes impacting the water supply available for export. Such operational

constraints are likely to continue until long-term solutions to the problems in the Bay-Delta are identified and implemented. Neither the City nor CWA can predict the ultimate outcome of any of the litigation or regulatory processes described above but each believes they could have a materially adverse impact on the availability and cost of SWP and MWD water supplies.

Seismic Considerations. Major portions of the California Aqueduct are located parallel to and near the San Andreas and other faults. All major faults are crossed either by canal at ground level or by pipeline at very shallow depths to ease repair in case of damage from movement along a fault. SWP facilities are designed to withstand earthquakes without major damage. Dams, for example, are designed to accommodate movement along their foundations and to resist earthquake forces on their embankments. Earthquake loads have been taken into consideration in the design of project structures such as pumping and power plants. The location of check structures on the canal allows for hydraulic isolation of the fault-crossing repair. No assurance can be made that a significant seismic event would not cause damage to SWP structures and interrupt the water supply available from the SWP.

Additional MWD Water Supplies and Storage. MWD has a number of water transfer and storage and exchange programs with state, federal, public and private water districts and individuals in order to augment its imported water supplies. MWD has entered into groundwater basin storage agreements with the Arvin Edison Water Storage District and Semitropic Water Storage District, groundwater banking and exchange transfer agreements with the Kern Delta Water District, the Mojave Water Agency, and the Antelope Valley-East Kern Water Agency, and water exchange agreements with San Gabriel Valley Municipal Water District, CVWD and the Desert Water Agency. MWD has additional agreements with other SWP Contractors and water agencies to augment MWD supply.

In addition to making its imported water supplies available for annual consumptive uses, MWD also purchases and stores excess imported water in wet years for use in dry years. MWD reports that its storage capacity is approximately 6.04 million AF, which includes reservoirs, conjunctive use and other groundwater storage programs within its service area, and groundwater and surface storage programs along the SWP and CRA. MWD forecasts that, with anticipated supply reductions from the SWP due to pumping restrictions, it will need to draw down on storage in about seven of ten years and will be able to replenish storage in about three years out of ten. This reduction in available supplies extends the time required for storage to recover from drawdowns and could require MWD to implement its Water Supply Allocation Plan during extended dry periods. After several years of withdrawals from storage, MWD returned water to storage reserves in 2016 and 2017. As of January 1, 2018, MWD had 3.0 million AF in reserves. The actual withdrawal from storage will vary depending on supply conditions and member agencies' response to MWD's call to reduce demand.

CWA and MWD Actions in Response to Drought Conditions

Governor Brown declared a drought state of emergency in California on January 17, 2014, and issued an Executive Order ("Governor's Order") calling for a 25% reduction in consumer water use in response to the historically dry conditions throughout the State on April 1, 2015. The Governor's Order was implemented through an emergency regulation adopted by the SWRCB. The emergency regulation included specific conservation standards that took effect June 1, 2015, and required urban water suppliers to reduce usage through February 2016, as compared to the amount used in 2013. On May 18, 2016, the SWRCB adopted modifications to the emergency regulation which replaced the state-mandated conservation targets with a supply-based approach that mandates urban water supplies take actions to ensure at least a three-year supply of water to their customers under drought conditions. On April 7, 2017, Governor Brown lifted the drought state of emergency in most of California while maintaining water reporting requirements and prohibitions on wasteful practices.

As a wholesale water agency providing a supplemental water supply to its member agencies, MWD was not subject to the requirements of the Governor's Order, which applied to retail water agencies, however MWD's member retail agencies were required to comply with the Governor's Order and water sales declined as a result. To offset reductions in SWP supplies and mitigate the impacts of the drought, MWD met water demands by supplemental water transfers and purchases, drawing on storage reserves, and utilizing limited available supplies from the Colorado River and SWP deliveries.

As a wholesale agency itself, CWA was also not subject to the conservation mandate. However, CWA member retail agencies, including the City were required to reduce their potable urban demands by their specific percentage reduction during the months of June 2015 through February 2016 compared to the same months in 2013.

Since 2014, CWA has taken several actions in response to the drought conditions. A supply and demand analysis for fiscal year 2016, taking into account CWA's estimated available supplies, showed that investments made in the San Diego region for supply reliability projects and programs were able to mitigate the 15% shortfall from MWD. CWA's 20-year diversification strategy was successful in reducing water shortages from MWD due to drought.

In addition to recent regulations and other State actions in response to drought conditions, legislation approved in November 2009 sets a statewide conservation target for urban per capita water use of 20% reductions by 2020 (with credits for existing conservation) at the retail level, providing an additional catalyst for conservation by member agencies and retail suppliers. MWD's water sales projections incorporate an estimate of conservation savings that will reduce retail demands. Current projections include an estimate of additional water use efficiency savings that would result from local agencies reducing their per capita water use in response to the 20% by 2020 conservation savings goals required by recent legislation as well as an estimate of additional conservation that would have to occur to reach MWD's current Integrated Resources Plan goal of reducing overall regional per capita water use by 20% by 2020.

Pursuant to Governor Brown's Executive Order B37-16, new water management planning legislation (SB 606 and AB 1668) was developed and chartered into law in 2018 that establishes guidelines for efficient water use and a framework for the implementation and oversight of new standards expected to be in place by 2022. The two bills strengthen the state's water resiliency in the face of future droughts with provisions that include: establishing an indoor, per person water use goal of 55 gallons per day until 2025, 52.5 gallons from 2025 to 2030 and 50 gallons beginning in 2030, creating incentives for water suppliers to recycle water, requiring both urban and agricultural water suppliers to set annual water budgets and prepare for drought, and setting water use objectives for urban and commercial water suppliers. The new legislation also establishes urban water use objectives and water use reporting requirements, including a requirement that an urban water supplier must calculate an aggregate urban water use objective for the previous calendar year beginning November 2023. Urban water suppliers will also be required to establish urban water use objectives and reporting standards for indoor and outdoor residential and commercial use. Urban water suppliers will be required to submit an annual report to DWR including the urban water use objective and actual water use and the State legislature will hold oversight hearings with the SWRCB and DWR in 2026 to assess compliance.

Although MWD and CWA, as wholesale water agencies, are not required to comply with the water use requirements of the new conservation legislation, the City will be required to comply. Since outdoor water efficiency standards have yet to be established, the City has not calculated whether compliance will require additional water conservation by its customers and whether it will affect water sales revenue.

Locally, total precipitation in the San Diego region was below average for the water year beginning October 1, 2017. Annual rainfall, as measured at Lindbergh Field was at 30% of normal for water year 2018 as of July 31, 2018. However, because of increased rainfall in prior years, reservoir storage in the San Diego region was at 48% of capacity, or just over 355,651 AF as of July 31, 2018. CWA storage accounted for 158,904 AF of the total stored water in San Diego County in 6 different reservoirs.

Investments over the last 20 years to diversify water supply resources, and the regional commitment to conservation have greatly improved supply reliability for the San Diego region. For example, CWA's Colorado River transfers under the QSA increased to 180,256 AF in fiscal year 2014, and the transfer schedule will ramp up to 200,000 AF by 2021. The Carlsbad Desalination Project began commercial production in December 2015, and has the potential to produce up to 56,000 AFY of new drought-proof water supplies. Local retail agency existing and future water recycling and brackish groundwater recovery projects will continue to result in greater reliability and diversification of the region's water supplies and resilience against drought. CWA forecasts that existing local projects combined with implementation of future projects, like the City's Pure Water Program, will result in approximately 178,000 AF of highly reliable local supplies by 2035.

On March 10, 2016, SWRCB staff certified the supply of potable water from the Carlsbad Desalination Plant (the Carlsbad Project herein) as drought-resilient, which allowed each of CWA's member agencies to reduce its conservation standard by an amount up to 8%, but not beyond an 8% minimum conservation standard, with a retroactive application date of March 1, 2016.

City Water Conservation Efforts

The Water Conservation Program was established by the City Council in 1985 and promotes permanent water savings. These savings have been achieved by creating a water conservation ethic, adopting programs, policies, and ordinances designed to promote water conservation practices, and implementing comprehensive public information and education campaigns.

The Department utilizes a broad range of conservation methods, including public outreach, rebate incentives, residential and commercial surveys, use restrictions and enforcement. Over the past few years, City has offered rebate for installation of pressure reducing valves, grey water systems, rain barrels and turf conversion projects. The Department also encourages customers to participate in regional rebate programs to utilize non-city funding while achieving additional conservation. Water Conservation efforts also include free residential and commercial surveys. The surveys are offered to City water customers and provide an in-depth assessment of the customer's water fixtures and usage throughout the property.

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

The City continues to exceed the 2020 water use reduction mandate under State law due to the efforts mentioned above and the concerted effort of the public to conserve water.

City Planning and Resource Management

Strategic Plan and 2012 Long-Range Plan. The City has developed and continues to develop strategic plans for the Water System. A principal planning document is the City's 2012 Long-Range

Water Resources Plan ("2012 Long-Range Plan"), which was completed in December 2013. The 2012 Long Range Plan is the City's most recent update to its 1997 Strategic Plan for Water Supply (the "Strategic Plan"), which estimated water demand through 2035 and identified infrastructure requirements necessary to ensure that facilities were in place to store, treat, and distribute required supplies in an efficient and effective manner. The 2012 Long-Range Plan addresses population growth, water resource diversification, climate change and other issues affecting water reliability. The City has begun work on its 2020 Long-Range Water Resources Plan, which will update to the 2012 Long-Range Water Resources Plan. The 2012 Long-Range Plan was developed using an open, participatory planning process, with input from a dedicated 11-member stakeholder committee that represented a wide range of interests and backgrounds and who provided guidance and input on alternative strategies for meeting San Diego's water needs through 2035. The 2012 Long-Range Plan evaluates water supply and conservation options with consideration of multiple planning objectives. The 2012 Long-Range Plan uses the latest projections of water demands, imported water availability, and costs; and evaluates new supply opportunities. Due to heavy reliance on imported water, the plan examined the various risk elements associated with that supply. In addition to imported water concerns, the plan considered key issues regarding development of local water resources.

Due to its high-level and strategic nature, the water supply and conservation options proposed in 2012 Long-Range Plan are considered conceptual in nature. Because no single water supply option can meet all of the goals of the 2012 Long-Range Plan, a range of options were considered to form eight portfolios and diversify the approach to meet the objective of the plan. The eight portfolios were evaluated against more than 20 performance metrics such as water shortages and hydrologic variability. The portfolios were ranked in terms of their cumulative performance. Based on these rankings, and their climate change adaptation benefits, three portfolios consistently ranked highest. All three of the highest ranked portfolios included Potable Reuse (process of using treated wastewater for drinking water) as a common resource option, which is significant. Based on the 2012 Long-Range Plan findings, the following water supply strategies and additional actions were approved by the City Council for implementation to enhance the reliability of the City's water supply:

1. Water supply options to implement (until 2035)

    - Additional Active Conservation – 20,900 AFY (18.7 mgd)
    - Rainwater Harvesting – 420 AFY (0.38 mgd)
    - Groundwater Supply – up to 4,000 AFY (3.57 mgd)
    - Potable Reuse (3 phases) – 92,960 AFY (83 mgd)

2. Assess progress made on near-term implementation of options, and re-assess risk triggers concurrent with the City's Urban Water Management Plan schedule (2020, 2025, 2030, 2035, 2040).

3. Update the 2012 Long-Range Plan in 2020 (and every 10 years thereafter) in order to identify new trends, reliability of imported water, and additional resource options. Work on the 2020 Long-Range Water Resources Plan has begun.

2015 Urban Water Management Plan. The Department is required by the Urban Water Management Planning Act, California Water Code Sections 10610 through 10657, to prepare and adopt an Urban Water Management Plan ("UWMP") every five years. On June 20, 2016 the City Council adopted the 2015 Urban Water Management Plan ("2015 UWMP"). The City's 2015 UWMP describes

long-term resource planning responsibilities to ensure adequate water supplies are available to meet existing and future demands. In preparation of the 2015 UWMP, the Department coordinated with CWA and the local water agencies and cities to which the City sells untreated, potable or recycled water. The 2015 UWMP provides assessments for current demands; supplies over a 20-year planning horizon; and details contingency plans and drought response actions for various drought scenarios. The UWMP serves as the foundation document for Water Supply Assessments and Water Supply Verifications (SB 610/221).

In preparation for the City's 2020 Urban Water Management Plan (the "2020 UWMP"), the Department is coordinating with CWA for consistency of data and receiving regional supply options. The 2020 UWMP will assess current demands; supplies over a 20-year planning horizon; and details contingency plans and drought response actions for various drought scenarios. A draft of the 2020 UWMP is anticipated to be completed in July 2021.

Groundwater. The City has several groundwater basins within its jurisdiction, including San Pasqual Valley in the north; San Diego River System in the center of the City comprised of the Mission Valley Groundwater Basin ("Mission Valley Basin") and the El Monte/Santee Basin; the Tijuana River Valley Basin in the south next to the Mexican border; and the San Diego Coastal Plain, a large geological water bearing formation, underlying the southwestern portion of San Diego County along the coast, roughly sandwiched between Mission Valley Basin and the Tijuana River Valley Basin.

The groundwater from these basins is predominantly brackish. Improved technologies for processing brackish groundwater and severe drought have made using groundwater more attractive when discussing a foreseeable affordable water supply source. These groundwater supply sources are a viable alternative and are an important part of the City's planning and investigative efforts. Local water supply projects using groundwater will benefit City rate payers by alleviating any drought restrictions and allowing the City to locally control its water. The City is assessing the development potential of its groundwater basins.

In 2013, the City and SWA signed a settlement agreement which allows the City to receive up to 50% of any additional potable water produced at SWA's Richard A. Reynolds Desalination Facility. This provides the City with up to 2,600 AFY of potable water. As part of the settlement agreement, the City and SWA will be working together in the development of a groundwater sustainability plan ("GSP") to manage and control groundwater resources for long-term sustainability.

In 2014, Governor Brown signed into legislation the Sustainable Groundwater Management Act ("SGMA") to the California Water Code. The new law grants certain local public agencies the ability to become a Groundwater Sustainability Agency ("GSA") for their groundwater basin or a portion thereof, with broad authority to develop and implement GSPs. The law significantly increases the monitoring and reporting requirements for almost all groundwater users, with non-compliance subject to action by the local GSA and/or the SWRCB. The City is partnered with the County of San Diego on a GSA for San Pasqual Valley and is one of five participating agencies as a GSA for San Diego River Valley. The City has begun development of a GSP for each of the groundwater basins.

While the City is pursuing several groundwater projects, groundwater does not currently provide a significant source of water for the City.

Although all of the aforementioned water supply sources are important to the City's long range water supply goals, the City still relies and will for the foreseeable future, continue to rely heavily on CWA as its main supply source.

Recycled Water. The City has made significant capital investments in the recycled water program, which treats wastewater so that it can be used for purposes other than drinking water. Recycled water usage is seasonal and is primarily used for irrigation. Customers also use the water for dust suppression or soil compaction at construction sites, in cooling towers, ornamental fountains, and for office building toilet and urinal flushing (dual plumbing).

To date, approximately $413.3 million has been spent on two water reclamation plants (consisting of the North City Water Reclamation Plant (the "North City Plant") and the South Bay Water Reclamation Plant (the "South Bay Plant"), distribution systems and related facilities. Approximately $25 million of those costs were covered through State and federal grants.

The 1998 Regional Wastewater Disposal Agreement between the City and the Participating Agencies (the "Participating Agencies") of the Metropolitan Sewerage System ("Metro System") specified that the revenues from the sale of recycled water from the North City Plant should first be used to pay the cost of the distribution system borne by the Water Utility, then the tertiary treatment costs borne by the Metro System; and the agreement was silent on the revenue from sales from the South Bay Plant. The City and the Participating Agencies share South Bay Plant net revenues, *i.e.*, revenues net of operating and capital expenses incurred by the Water Utility Fund for the recycled water system. The Participating Agencies' share of the recycled water revenue from the South Bay Plant will be reflected as a revenue credit and received annually as part of the City's Exhibit E Audit. The Department estimates that the Participating Agencies' share of recycled water revenue will be approximately $1.1 million annually through Fiscal Year 2020.

North City Plant. In Fiscal Year 2018, the plant operated at an average flow rate of approximately 16 mgd. The North City Plant is producing an average of 7.5 mgd of recycled water that is distributed to users through the Northern Water Distribution System. The North City Plant also is capable of providing treatment beyond the tertiary level through the demineralization of a portion of the effluent, to reduce total dissolved solids ("TDS") to meet recycled water customers' needs. The North City Plant limits its production of recycled water to meet demand. Excess treated effluent is returned to the sewer system for conveyance to the Point Loma Plant and ocean outfall. In Fiscal Year 2018, approximately 8.5 mgd was returned to the sewer system.

As of June 30, 2018, the North City Plant produced recycled water that served 728 retail and four wholesale meters. Three of the wholesale meters serve the Olivenhain Municipal Water District and the remaining wholesale meter serves the City of Poway. Revenues from the sale of recycled water are collected by the Department for deposit in the Water Utility Fund and used to pay for the cost of the recycled water distribution system and then operations and maintenance costs for the distribution system.

South Bay Plant. The South Bay Plant includes a demineralization facility to reduce total dissolved solids ("TDS") for a portion of the recycled water to meet a contracted quality of 1,000 parts per million ("ppm") TDS. The Regional Water Board permit criteria for recycled water is 1,200 ppm TDS. The South Bay Plant has a permitted capacity of 15 mgd average daily flow. For Fiscal Year 2018 the plant operated at an average flow rate of approximately 7 mgd. The South Bay Plant produced an average of 3.7 mgd of recycled water that was distributed to one wholesale and three retail meters. The wholesale connection is contracted at City's retail rate and is subject to an annual take or pay minimum recycled water purchase.

Recycled Water Rates. In 2015, the City Council, in accordance with Proposition 218, approved a five Fiscal Year rate case for Fiscal Years 2016 through 2020 (the "2016 Rate Case"), of which the recycled rates were approved to rise to $1.734/HCF beginning January 1, 2016. The new city-wide rate is

in effect through Fiscal Year 2020, when it will be reevaluated via cost of service principles and could be adjusted again.

Pure Water Program

General. The Pure Water Program is the City's program to provide a safe, secure, and sustainable local drinking water supply for the City. Advanced water purification technology will be used to produce potable water from wastewater that has already been treated by traditional wastewater reclamation processes including chemical coagulation, biological treatment and filtration methodologies ("advanced primary treated water"). The City and its regional partners face significant issues with water supply and wastewater treatment. Typically, the Department has provided 85-90% of its customers' water needs from imported sources. The region's reliance on imported water causes the water supply to be vulnerable to impacts from shortages and susceptible to price increases beyond the control of the Department. As sources of local water supply are few, consideration has been given to both non-potable and potable reuse options for treated water. Water reuse has proven to be safe and reliable, and is currently in use in other communities in the United States and around the world.

The Pure Water Program is a significant water and wastewater capital improvement program that is expected, upon full implementation by the end of calendar year 2035, to create at least 83 mgd capacity of locally controlled water. The Pure Water Program is also expected to reduce flows into the Point Loma Wastewater Treatment Plant ("Point Loma Plant"), which would reduce total suspended solids discharged and recycle a valuable and limited resource that is currently discharged to the ocean. Phase 1 of the program is expected to produce up to 30 mgd of purified drinking water by the end of February 2024. See "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Description of Major Projects" and Table 11 under that heading. See, also "RISK FACTORS – Pure Water Program."

Background of Pure Water Program. In 2004, the City Council authorized a comprehensive evaluation of all viable options to maximize the usage of recycled water. In 2006, the City, working in partnership with an Independent Advisory Panel and a City Assembly on Water Reuse, published the "City of San Diego Water Reuse Study" (the "Water Reuse Study"). The Water Reuse Study included analysis and research on the health effects of reuse options and a public participation process. The Water Reuse Study's stakeholders identified reservoir augmentation as their preferred strategy. In 2007, the City Council also recognized such strategy as its preferred alternative and voted to accept the Water Reuse Study and proceed with the Water Purification Demonstration Project (the "Demonstration Project"), which evaluated the feasibility of turning recycled water produced at the North City Plant into drinkable water through the use of Advanced Water Purification ("AWP") technology. The Demonstration Project was completed in 2013. The City Council unanimously voted to accept the Demonstration Project and continue to pursue potable reuse options for the City. The Demonstration Project produces approximately 1 mgd of potable water and remains a valuable pilot site and public education center for the Pure Water Program.

Modified Permit. In 2010, the City received a renewal of the Modified Permit for the Point Loma Plant and agreed to identify opportunities to maximize recycling wastewater for potable and non-potable uses. That permit expired in July 2015 and was administratively continued while the regulatory agencies completed work on the renewal application. In 2017, the EPA, in conjunction with the California Regional Water Quality Control Board ("RWQCB"), issued the final approval renewing the Modified Permit ("5th Renewal") and a waiver from secondary treatment standards for another five years. The permit took effect October 1, 2017 and expires on September 30, 2022. The 5th Renewal was based on compliance with Clean Water Act requirements, progress of the Pure Water Program, and a reduction in permitted emissions from the previous permit level. The Pure Water Program is designed to reduce discharge into the ocean from the Point Loma Plant while providing a new local source of potable water

for the City. It is anticipated that continuation of the Pure Water Program can be reflected in future permits.

Pure Water Program Facilities. The Pure Water Program involves the planning, design, and construction of new advanced water treatment facilities, wastewater treatment facilities, pump stations, transmission lines and pipelines. The Pure Water Program will include property and easement acquisition, discretionary permitting, environmental mitigation, financing, facility startup, testing, maintenance and operation of new facilities, significant public education and community engagement.

The key Pure Water Program facilities can be categorized as treatment, storage, and conveyance. Treatment facilities for Phase 1 include a new North City Pure Water Program Facility and the expansion of the existing North City Plant. Future phases include the potential expansion of the South Bay Water Reclamation Plant, as well as proposed Central Area facilities that would include both reclamation and purified water facilities. Pump station and pipeline facilities are included for conveying different types of flows to and from the treatment facilities for: diverting wastewater flows to advanced water purification facilities; conveying purified water from treatment facilities to a reservoir; and transporting solid wastes from treatment processes to solids handling facilities. All projects will be planned and coordinated with existing operations, and in full compliance with applicable federal, State, and local regulations.

Phase 1 Pure Water Program.

The Phase 1 North City Area component of the Pure Water Program ("Phase 1") incorporates improvements to the City's Water and Wastewater Systems and is expected to produce 30 mgd of purified drinking water by the end of February 2024. The Phase 1 projects include: (1) the North City Plant Expansion and Influent Conveyance which expands the existing North City Plant's capacity from 30 mgd to 52 mgd to provide tertiary-treated water to the future advanced treatment facility with a 42.5-mgd pump station and 1,400 foot pipeline; (2) the new North City Pure Water Program Facility which will treat the tertiary-treated water to purified water standards using ozone and biological activated carbon filters, membrane filtrations, reverse osmosis, and ultraviolet light with advanced oxidation and includes chemical feed systems and an operations building; (3) a new 30-mgd North City Pure Water Program Pump Station, which will convey the purified water to the Miramar Reservoir; (4) a new 8-mile North City Pure Water Program Pipeline at the end of which the purified water will blend with the City's other water supplies and be treated at the adjacent Miramar Water Treatment Plant and distributed to customers; (5) the North City Morena Boulevard Pump Station and Pipeline, comprised of a 37.7 mgd pump station and 10.7 mile, 48-inch forcemain that will convey wastewater from the pump station to the North City Water Reclamation Plant for treatment and a new 10.7-mile pipeline to dispose of the brine generated from the North City Pure Water Program Facility to a new pump station so that it is not recirculated to the North City Plant; and (6) certain Miramar Water Treatment Plant and Miramar Reservoir Pump Station Improvements, which will continuously pump the raw water from the Miramar Reservoir to the Miramar Water Treatment Plant. Additionally, a new power generation facility is expected to be installed on site at the existing North City Water Reclamation Plant. The power generation facility is anticipated to be operational by Fiscal Year 2024 and will produce the majority of power needed for the North City Pure Water Program Facility and expanded North City Water Reclamation Plant. Power generation will be expanded at the North City Water Reclamation Plant and Metro Biosolids Center to generate electricity from captured landfill gas supplemented with natural gas. The project will also include a new landfill gas compressor station and pipeline. This new power generation facility is currently expected to be primarily financed and operated under a Public Private Partnership Agreement. Under the Public Private Partnership Agreement, the Department projects performance payments to the private party, which are included in the Pure Water Program-related maintenance and operation costs projections. The North City Plant Expansion and Influent Conveyance and the North City Morena

Boulevard Pump Station are joint projects of the Water and Wastewater Systems and the costs are allocated to both Water and Wastewater Systems, see cost estimates below for methodology.

In April 2018, the City Council unanimously certified the Phase 1 North City Final Environmental Impact Report and Environmental Impact Statement (the "Phase 1 EIR/EIS"), issued a Site Development Permit and approved two construction management contracts, clearing the way for the design and construction of the Pure Water Program Phase 1 North City Facilities. The Phase 1 EIR/EIS was prepared in accordance with the "CEQA" and the National Environmental Policy Act ("NEPA") to inform public agency decision-makers and the public on the environmental impacts that could result with the approval and implementation of Phase 1, identify possible ways to minimize significant impacts, and evaluate reasonable project alternatives. The Bureau of Reclamation has completed federal agency consultations and is currently routing the Record of Decision, which will complete the NEPA process.

On November 15, 2018, the City Council voted to authorize the bid, award, and execution of construction contracts for the Pure Water Program of up to $1.08 billion, to establish a $103 million contingency pool for Pure Water Program projects, to establish an Owner-Controlled Insurance Program ("OCIP") for Pure Water Program projects, and to negotiate a Reservation of Rights Agreement with SDG&E that provides initial funding to SDG&E to begin design and relocation of existing gas and electrical facilities. See "LITIGATION – SDG&E Dispute".

Based on 100% completed designs and an engineering and constructability review process, Phase 1 is estimated to cost approximately $1.477 billion, assuming an annual inflation rate of 3.1% in costs through the construction period. This amount includes work already completed, soft costs for planning, permitting, and program management, property acquisition costs, and construction costs. The amount also includes the provision of a 5% contingency for field order changes and an additional $103 million contingency pool that Pure Water Program projects can draw on if they experience cost overruns. The Department has determined that costs for the program will be allocated between the Water Utility and Sewer Revenue Funds of the Water System and Wastewater System, respectively, in the following way: all capital and operational costs related to facilities for the conveyance of wastewater and the treatment of the wastewater through secondary treatment would be borne by the Sewer Revenue Fund (including its customers and regional partners); all capital and operational costs related to treatment and conveyance of process water post the secondary phase will be borne by the Water Utility Fund. The Phase 1 North City of the Pure Water Program is anticipated to be operational by end of February 2024.

Based on the cost allocation between the Water and Wastewater Systems, approximately $865 million is allocated to the Water Utility Fund and approximately $612 million is allocated to the Sewer Revenue Fund (including its customers and Participating Agencies, which are required to pay their respective share of the Metropolitan Sub-System maintenance and operation and capital improvement program costs, currently approximately 33% of these total costs). Between both Water and Wastewater Systems, these costs include approximately $261 million in contractual services for program management, treatment process optimization, environmental reports, and design and construction support services. Program management includes schedule and budget control, change and risk management, public outreach support, and as-needed technical studies accounting for $46 million in contractual services. Treatment process optimization efforts have refined operational strategies and account for approximately $10 million of contractual service costs. Approximately $3 million in contractual services have been utilized in support of the preparation and approval of the Phase 1 North City environmental impact report. Further, design and construction support services contracts entered into to date account for $202 million. The program is expected to be funded with various funding sources available to the City. See "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Description of Major Projects" and Table 11 under that heading.

Water rates for Fiscal Year 2021 and beyond are not part of the 2016 Rate Case. Pure Water Program expenditures for the Water Utility Fund are rate dependent. The City anticipates that additional rate capacity will be necessary after Fiscal Year 2020. The City expects to perform a cost of service analysis to prepare a new rate case for recommended rate adjustments for the Water Utility Fund to address future capital program costs, maintenance and operation expenditures, and Pure Water Program capital expenditures.

Based on the project management consultant's projections, the Water System's first full year of annual operating costs associated with Phase 1, projected to begin in Fiscal Year 2024, are estimated at approximately $43 million. These costs will be offset by a decrease in the Department's need to purchase 33,600 AF of water each year, which, based on projected CWA rates, is expected to result in a decrease in expenditures of approximately $45 million annually beginning in Fiscal Year 2024.

Pure Water Program costs as described in this Official Statement are based upon the Department's current estimates. See "RISK FACTORS – Pure Water Program."

Future Pure Water Program Phases. The City continues to review and evaluate future phases of the Pure Water Program, including the methods to be employed to purify water and the locations of the purification facilities.

The City has taken a phased approach to the Pure Water Program's implementation, with full implementation expected by 2035. Phased implementation will allow the City to adapt to changing conditions, and in some cases, to update previous planning assumptions. The remaining 53 mgd of the total 83-mgd Pure Water Program goal were originally planned to be delivered by facilities located in the central and southern areas of the City. Master planning was originally performed in 2012 and is currently being revisited to account for changes in treatment technology, wastewater flows, water demands, and projections of both flows and demands. As part of the current Pure Water Program planning update, other alternatives, including the feasibility of producing all of the remaining 53 mgd in the Central Area (Phase 2), are being evaluated. Thus, the southern area facilities may or may not be utilized. The implementation of Phase 1 is not dependent on implementation of the future Pure Water Program phases.

Future City Water Demand

Table 10 below sets forth water demand projections as currently projected in the City's 2015 UWMP. Although the City continues to promote water conservation, the demand for water within the City's service area was projected to increase. As compared to projections included in the prior UWMP, the projected overall water demand decreased due to the City's conservation efforts, public education, drought response and mandatory water use restrictions. These projections are based on many assumptions that include population growth, weather patterns and economic development, which are subject to change. There can be no assurance that the local demand for the services provided by the Water System will be maintained at levels described below or elsewhere in this Official Statement. See "RISK FACTORS – Water System Demand."

TABLE 10
WATER DEMAND
AS OF THE 2015 URBAN WATER MANAGEMENT PLAN
Fiscal Years 2020 through 2040
(AFY)

2020	2025	2030	2035	2040
200,984	242,038	264,840	273,748	273,408

Source: 2015 Urban Water Management Plan, Public Utilities Department, City of San Diego.

Water System Regulatory Requirements

General. Drinking water that is delivered to customers is subject to numerous regulations enforced by multiple governmental entities, including the federal EPA, SWRCB and RWQCB. Such regulations include Title 22 of the California Code of Regulations and the Federal Safe Drinking Water Act (as amended, the "Safe Drinking Water Act"), which sets forth requirements and standards relating to the protection of drinking water and its sources against both naturally-occurring and man-made contaminants that may be found in drinking water. In addition, the transfer, treatment, storage and discharge of water are subject to additional regulations. These transfers and discharges are regulated under, among other things, the Federal Clean Water Act through National Pollutant Discharge Elimination System ("NPDES") permits issued by the SWRCB and the Porter Cologne Act under the California Water Code. The NPDES permits contain narrative and numeric effluent limitations, monitoring, reporting, and notification requirements for water discharges from the facilities and pipelines of the Water System.

Further, various other permits and licenses are required for operation of the water treatment plants, water impounding system, water quality lab and distribution system. Such permit requirements address issues such as surface water treatment, disinfection and disinfection byproducts rules, regulations governing groundwater to address waterborne disease and microbial contamination, and rules on the monitoring, reporting and treatment requirements of public water systems associated with lead and copper. Among other things, a Water Supply Permit from the DDW (the "Water Supply Permit") applies to operation of the Water System facilities and is required to be amended as changes occur within the Water System, including the capacity and process improvements at the water treatment plants.

The City currently meets all federal and State regulations applicable to drinking water and operates and maintains all water treatment transmission and distribution facilities in compliance with NPDES permit requirements. The City does not anticipate any problems with continued Water System operation under existing permits and licenses.

Compliance Order of the California Department of Public Health/DDW. The Water System is subject to a Compliance Order (as amended to date, the "DDW Compliance Order") issued by DDW (successor to the California Department of Public Health), which is the State regulatory agency responsible for ensuring that water systems meet the federal regulations, as well as additional or stricter State regulations. To address certain deficiencies in the future reliability of various components of the Water System, the DDW Compliance Order, issued in 1997, requires the Department to complete eight pump stations, 10 reservoirs/standpipes, nine treatment-related projects and four pipelines and award 10 miles of distribution (small diameter) cast iron water main replacement per Fiscal Year until all small diameter cast iron water mains within the Water System have been replaced. All of the required projects were completed in calendar 2012. The awarding of distribution pipelines is ongoing and the Department

expects to award the replacement of all remaining small diameter cast iron water mains by calendar year 2021, which will fulfill the final requirement of the DDW Compliance Order. The Department is meeting all other ongoing requirements of the DDW Compliance Order, including the provision to the DDW of quarterly progress reports.

The costs for bidding, constructing and completing the required work fluctuates depending on variables such as changes in the cost of materials and labor. The estimated DDW Compliance Order project costs for Fiscal Years 2019 through 2024 total approximately $56.9 million. The Department anticipates financing such costs with existing net assets, present and future revenues, and financing proceeds secured by System Revenues.

Dam Licensing and Safety Issues. Among the Water System's facilities are thirteen dams that are subject to the jurisdiction of the California Department of Water Resources' Division of Safety of Dams ("DSOD"), which has various inspection and approval authority relative to operation of and improvements to dams. Among the authority granted to DSOD is the power to impose water level restrictions on dams for safety reasons, which may restrict reservoir capacity. These water level restrictions apply to El Capitan Dam, one of the City's earth dams.

In addition, the California Office of Emergency Services has imposed requirements for the review and approval of inundation maps for dams, critical appurtenant structures, and enhanced dam inspection practices. As a result, the City developed a plan for a comprehensive condition assessment of four of the City's "extremely high" hazard dam appurtenant structures: Lake Hodges, Savage, Morena and El Capitan dams. The plan was reviewed and approved by the DSOD. The City is currently preparing 12 inundation studies and developing condition assessment reports to fulfill the DSOD's new requirements.

Proposed Regulations. Laws and regulations governing drinking water, surface water impoundments, groundwater, and discharges from drinking water systems continue to be developed and reviewed by federal, state and local regulators. Regulatory developments at the State and federal level, as well as new and ongoing permit reissuance activities, may increase operations costs and capital needs of the Water System and may have an effect on the Water System and its revenues. The City is actively monitoring the regulatory developments and cannot determine at this time how much increased costs will be associated with complying with the additional regulations. See "RISK FACTORS – Statutory and Regulatory Compliance."

WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program

The Water System CIP is established to address current and future system needs in a cost effective manner. The program's principal drivers are: improving infrastructure to reduce pipeline breaks and emergency repairs; improving process technology; expansion of the Water System to accommodate growth; compliance with the Federal Safe Drinking Water Act and the DDW Compliance Order; and implementation of the Pure Water Program. In November 2015, the City Council adopted rate increases for Fiscal Years 2016 through 2020 to pay for the increased cost of purchased water, revenue recovery due to the drought and the State mandated water use cuts, recovery of required debt service coverage levels, the initial phase of the Pure Water Program, and update and improvement of existing infrastructure. The infrastructure improvements consist of water treatment plants, pipelines, reservoirs and pump stations, projects related to anticipated growth within the City's service area, and projects required by or related to applicable State and federal regulations and orders. Additional rate increases are anticipated to complete these projects. See "WATER SYSTEM FINANCIAL OPERATIONS – Establishment of Water Service Charges."

Description of Major Projects

The Department has developed a comprehensive CIP to address current and future Water System needs. See Table 11 below. The CIP projects can be classified into one of eight categories as they relate to the Water System. The following is a brief description of the Water System CIP by categories.

The current cost estimate of CIP projects for the period from Fiscal Years 2019 through 2024, with inflation, is approximately $1.9 billion, and the cost estimates are subject to change. The budget for each project and program is established and approved by the City Council and adjustments to such budget requires approval of the City Council.

Pure Water Program. The Pure Water Program is the Department's program to provide a safe, secure, and sustainable local drinking water supply for San Diego. Advanced water purification technology will be used to produce potable water from advanced primary treated water. See "WATER SUPPLY – Pure Water Program" for additional information on the Pure Water Program. As projected, the expenditures for the Pure Water Program attributable to the Water Utility Fund represent the single largest component – $836 million, or 44% of the overall CIP for Fiscal Years 2019 through 2024. See Table 11 below. Of the $836 million in projected expenditures for the Pure Water Program, $820 million are projected to be expended in Fiscal Years 2019 through 2024 for Phase 1 (North City), $12 million in Fiscal Years 2020 through 2022 for the Central Area Demonstration Facility, and $4 million in Fiscal Year 2024 for Phase 2 (Central Facility).

Transmission Pipelines. Transmission pipelines are designed to transport water from the major supply sources (water treatment plants, pump stations and potable reservoirs) to supply the distribution grid. The CIP provides for the replacement of 16-inch and larger diameter water pipelines at various locations throughout the City, which are in a deteriorated condition or have reached the end of their service life. The Department is also assessing its transmission pipelines and is scheduling the replacement of these pipelines based on the condition of existing facilities, system needs and available funds.

Pipelines. The CIP includes the replacement of distribution water pipelines located throughout the City. Distribution pipelines are supplied by the transmission system and run throughout the City's street grid to supply the customer service connections. The Department plans the awarding of contracts for the replacement of 30 to 35 miles per fiscal year, which includes cast iron pipes mandated by the DDW Compliance Order and high priority asbestos cement pipes based on their high risk of failure and degraded condition.

Water Storage Facilities. The CIP includes projects that will replace and/or make improvements to the existing water outlet structures at Lower Otay and Morena reservoirs to comply with the DSOD seismic requirements as well as the construction of two new clearwells to increase the water storage capacity at the Miramar Water Treatment Plant.

Water Treatment Plants. The CIP provides for upgrades and improvement of the treatment facilities at Alvarado, Miramar, and OWTP.

Pump Stations. The CIP includes projects that will upgrade, rehabilitate and construct pump stations throughout the Water System to improve service reliability and to accommodate current and future water demands.

SDG&E Relocation Advance. The City and SDG&E are currently in dispute over the costs of utility relocations in connection with the Pure Water Program. Absent and until a resolution is reached, to

avoid project delays, the City has included projected costs to advance funding to SDG&E to relocate certain electricity transmission lines. See "LITIGATION – SDG&E Dispute."

Groundwater. The CIP provides for investigation work related to legal, technical, regulatory, and water quality issues; and for the planning, design, and construction of groundwater facilities to increase the local water supply. The groundwater feasibility projects being explored by the City are in San Pasqual, Mission Valley, San Diego Formation and the Santee-El Monte.

Miscellaneous. Other CIP projects include the Chollas building, water security projects at reservoirs and dams, solar projects at Bayview reservoir (a treated water storage tank) and MOC Complex facilities, pressure regulating station replacements, instrumentation and control upgrades at water facilities, and the AMI project (the Department's project to replace all existing meters with automated "Smart Meters" and its associated infrastructure) are contained within this category.

The following table shows categories of projects with the estimated cost of expenditures contained in the CIP for the period of Fiscal Years 2019 through 2024. Final CIP project costs will be refined as the CIP progresses. The budget for each project and program is established and approved by the City Council and adjustments to such budget requires approval of the City Council.

TABLE 11
SUMMARY OF PROJECTED CIP PROJECTS[(1)(2)(3)]
Fiscal Years 2019 through 2024
($ Amounts in Thousands)

	Projected						
Description	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**Total[(4)]**
Pure Water Program[(5)]	$30,124	$197,039	$281,514	$204,494	$106,025	$17,066	$ 836,262
Transmission Pipelines	46,669	67,240	55,731	62,327	63,744	42,322	338,034
Pipelines	71,917	64,344	71,344	36,846	33,823	46,364	324,638
Storage Facilities[(6)]	5,315	9,420	33,143	38,257	30,187	35,018	151,339
Water Treatment Plants	16,513	18,334	6,465	531	268	12	42,124
Pump Stations	15,381	7,507	2,746	8,556	7,905	9,095	51,189
SDG&E Relocation Advance[(7)]	26,835	48,172	0	0	0	0	75,007
Groundwater Projects	235	468	2,643	0	395	1,165	4,906
Recycled Water	175	0	0	0	0	0	175
Miscellaneous Projects[(8)]	27,547	33,610	10,637	2,940	7,981	5,915	88,630
Total[(4)]	**$240,710**	**$446,134**	**$464,223**	**$353,951**	**$250,328**	**$156,957**	**$1,912,304**

(1) Projections as of March 2018 for the Water System Baseline CIP and October 2018 for the Pure Water Program.

(2) Amounts reflect the aggregate costs of all CIP projects required to satisfy the DDW Compliance Order as well as projects related thereto or necessary for the operation thereof. It is the Department's expectation that the final awarding of cast iron distribution line replacement will be completed by Calendar Year 2021, thus fulfilling the requirements of the compliance order. For Fiscal Years 2019 through 2024, approximately 3% of the capital program is mandated by the DDW.

(3) The projected amounts in Fiscal Years 2019 and onward reflect an annual inflation rate of 3.1% due to anticipated increases in construction costs over time and the expected execution of the CIP.

(4) Figures may not add to total due to independent rounding.

(5) Projections are based on expected completion of the Pure Water Program Phase 1 by the end of February 2024 and include only the portion of the Pure Water Program attributable to the Water System.

(6) Storage Facilities include treated and untreated water reservoirs.

(7) Funding for the SDGE Relocation Advance in Fiscal Year 2019 will be provided by the Fiscal Year 2018 unallocated Fund Balance. See "LITIGATION – SDG&E Dispute."

(8) Miscellaneous Projects include water security projects, solar projects, and the AMI Program.

Source: Public Utilities Department, City of San Diego.

Capital Improvement Financing Plan

The Water System CIP includes the costs described in Table 11 above. Table 12 below sets forth the projected sources of funds for the Water System CIP for Fiscal Years 2019 through 2024.

As shown in Table 12, the City anticipates incurring approximately $821 million of additional Obligations in Fiscal Years 2019 through 2024 for Water System Baseline CIP (excluding the Pure Water Program), payments with respect to which will be senior to, or on parity with, the City's obligation to make 2018 Subordinated Installment Payments. This includes $65 million in net proceeds from the 2018 Bonds. Additionally, the City anticipates incurring $712 million of additional Obligations in Fiscal Years 2019 through 2024 for Pure Water Program CIP, payments with respect to which will be on parity with the City's obligation to make 2018 Subordinated Installment Payments, in each case subject to satisfaction of the conditions specified in the Master Installment Purchase Agreement, the proceeds of which will be provided to the City under the Master Installment Purchase Agreement to pay the costs of certain projects in the Water System CIP.

The City anticipates in Fiscal Years 2019 through 2024 to finance the costs of certain projects in the Water System Baseline CIP in the approximate amount of $229 million through SRF loans. This includes approximately $17 million from existing SRF loans for which the City has already applied and $212 million from loans for which the City plans to apply. These proceeds from additional SRF loans will provide funding in Fiscal Years 2019 through 2024. Such SRF loans are expected to be senior in right of payment to the City's obligation to make 2018 Subordinated Installment Payments.

The City anticipates financing approximately $592 million of the Water System Baseline CIP through a combination of revenue bonds and commercial paper. Such Obligations are expected to be senior to, or on parity with, the City's obligation to make 2018 Subordinated Installment Payments. It is expected that $12 million to $14 million in funding for the Water System Baseline CIP will come from capacity fees in Fiscal Years 2019 through 2024. Any remaining costs of the Water System Baseline CIP will be paid on a pay-as-you-go-basis, which are supported by currently approved water rates.

In addition to amounts available under the WIFIA Loan, the Department anticipates financing projects for Phase 1 of the Pure Water Program through revenue bonds, short term instruments such as commercial paper, State loans and grants, and cash. In June 2018, subsequent to the passage of Proposition 68, the "Parks, Environment, and Water Bond," the State allocated a $30 million grant for the Pure Water Program, which will be used to offset the costs attributable to the Water Utility Fund and the Sewer Revenue Fund, respectively. The Water Utility share is estimated at $17.4 million. This State funding allocation is available for encumbrance or expenditure through June 30, 2021. Water Utility Fund Obligations incurred to finance Phase 1 of the Pure Water Program are expected to be on parity with the City's obligation to make 2018 Subordinated Installment Payments. While the City has applied for State funding, there is no assurance that State funding will be available for Phase 1 of the Pure Water Program. See "WATER SYSTEM FINANCIAL OPERATIONS – Financial Projections and Modeling Assumptions." Notwithstanding any contributions from the Sewer Revenue Fund to finance Pure Water Program components of the Water System CIP, amounts from the Sewer Revenue Fund are not available to pay principal of and interest on the 2018 Bonds.

TABLE 12
PROJECTED SOURCES OF FUNDS FOR CAPITAL EXPENDITURES OF THE WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM[1]
Fiscal Years 2019 through 2024
($ Amounts in Thousands)

	2019	2020	2021	2022	2023	2024	Total
Source of Funds for Pure Water Program CIP:							
WIFIA Loan[2]	$28,982	$170,722	$236,399	$161,872	$ 16,025	$ 0	$614,000
Cash[3]	1,142	26,317	45,115	42,622	4,967	4,086	124,249
Commercial Paper/Revenue bonds	0	0	0	0	85,033	12,980	98,013
Total Source of Funds for Pure Water Program CIP	**$30,124**	**$197,039**	**$281,514**	**$204,494**	**$106,025**	**$17,066**	**$836,262**
Source of Funds for Baseline CIP:							
Commercial Paper/Revenue Bonds	$148,506	$138,966	$111,623	$ 67,894	$ 50,000	$ 75,078	$ 592,067
SRF Loans[4]	14,690	53,990	54,828	59,220	38,741	7,348	228,817
Capacity Fees/Cash	47,390	56,139	16,258	22,343	55,562	57,465	255,157
Total Source of Funds for Baseline CIP	**$210,586**	**$249,095**	**$182,709**	**$149,457**	**$144,303**	**$139,891**	**$1,076,041**

(1) Projects are based on expected completion of the Pure Water Program by the end of February 2024.

(2) Assumes periodic draw on the WIFIA Loan. Instead of drawing on the WIFIA Loan, the City could also utilize bridge financing instruments (commercial paper notes and/or bond anticipation notes) for some or all of the construction expenses during this period. See "WATER SYSTEM FINANCIAL OPERATIONS – Anticipated Additional Obligations."

(3) Fiscal Year 2020 Cash amount includes $17.4 million in grant proceeds from the State.

(4) Includes proceeds from existing SRF loans (approximately $17 million), and additional proceeds through Fiscal Year 2024 (approximately $212 million) for SRF loans for which the City plans to apply.

Source: Public Utilities Department, City of San Diego.

Environmental Compliance

The projects contained in the Water System CIP are generally subject to CEQA. Under CEQA, a project which may have a significant effect on the environment and which is to be carried out or approved by a public agency must comply with a comprehensive environmental review process. This review process may require the preparation of an EIR, Mitigated Negative Declaration ("MND"), Negative Declaration (described below) or Notice of Exemption ("NOE") depending on the significance of project impacts on the environment. An EIR reflects not only an independent technical analysis of the project's potential impacts, but also may include comments from other agencies with some form of jurisdiction over the project and comments from interested members of the public. Contents of an EIR include a detailed statement of the project's potentially significant environmental effects; any such effects which cannot be avoided if the project is implemented; mitigation measures proposed to eliminate or minimize such effects; alternatives to the proposed project; and any significant irreversible environmental changes which would result from the project. If the City, as the lead agency, determines that the project itself will not have a significant effect on the environment, it may adopt a written statement (called a "Negative Declaration") to that effect and need not prepare an EIR. An MND is appropriate for projects that could potentially result in a significant environmental impact, but revisions or standard mitigation measures are incorporated into the project that clearly mitigate the impact. Statutory exemptions are activities that are exempt from CEQA. Water System CIP projects can also be exempted if they fit a specific "category" of activities identified by the State Legislature. Once an agency approves or determines to carry out a project, either following an EIR process or after adopting a Negative Declaration or an MND, it must file a NOD. If the NOD is filed within five days, any action or proceeding challenging the agency's determination must be brought within 30 days following the filing of such notice. If the NOD is filed after the five-day period, the statute of limitations for any challenges is 180 days.

As part of its regular planning and budgetary process, the City prepares separate environmental documents for each Water System CIP project and evaluates the project under the City's environmental impact review procedures, which were developed in compliance with federal and State laws and local regulations. The City requires that all environmental documents be finalized prior to any authorization of funding for construction by the City Council or the Mayor.

The Water System CIP involves replacement, upgrading and increasing capacity of existing facilities. There are no current or anticipated environmental considerations that would adversely affect the completion of the Water System CIP within the contemplated budget or current timeline.

Project Management for the Water System Capital Improvement Program

The Department and the City Public Works Department ("Public Works") are responsible for the implementation of the Water System CIP. The Department is responsible for identifying the projects that are included in the Water System CIP. Development of such projects involves, among other things, master planning studies, assessing conditions, hydraulic modeling and forecasting, evaluating regulatory and health and safety requirements, prioritizing and scheduling projects, preparing planning reports, and allocating the budget. Subsequently, the Department transfers to Public Works the proposed projects scope of work, a planning report or 10% design, as appropriate, and the proposed schedule and budget. Public Works is responsible for the design, construction and start-up of the majority of all Water System CIP projects. However, as described below, Public Works will not be responsible for the design, but will oversee daily construction activities and startup of the Pure Water Program.

Each Fiscal Year, the Department and Public Works enter into a Service Level Agreement ("SLA") which outlines the responsibilities of each department as it relates to the planning, design and construction of water improvements with respect to water mains, water pump stations and treatment plants. Pursuant to the SLA, Public Works provides engineering services, including project management, design, environmental, permitting, land acquisition, scheduling, budget and construction management. Public Works implements the Water System CIP from design to completion, including capitalization of the final asset and management of warranty issues, as directed by the Department. The Department provides overall direction and policy for planning, financing and operations and maintenance of the Water System. Further, the Department funds the positions and non-personnel expenses, which are necessary for the service provider of a particular project to fulfill its responsibilities.

Due to the size and scope of the Pure Water Program, the Department has secured an approximately $261 million in contractual services for program management, treatment process optimization, environmental reports, and design and construction support services. The Department will be responsible for the delivery of the Pure Water Program, including project management and construction. See "WATER SUPPLY – Pure Water Program – Phase 1 Pure Water Program."

The City requires the consultant or contractor selected to design or construct a CIP project to provide minimum insurance therefor. Design consultants are required to provide at a minimum commercial general liability insurance of $1 million per occurrence ($2 million aggregate), commercial auto liability insurance of $1 million per occurrence, workers' compensation insurance of $1 million, architect and engineer's professional liability insurance of $1 million per occurrence ($2 million aggregate) and errors and omissions insurance for design-build projects. Construction contractors are required to provide at a minimum, among other things, commercial and general liability insurance aggregate limit of $2 million (other than products/completed operations) and $2 million (products/completed operations), personal injury insurance of $1 million each occurrence, commercial automobile liability insurance of $1 million combined single limit per accident and contractors risk property insurance in an amount equal to 115% of the contract value. Further, depending upon the size

and scope of a project, the City's Risk Management Department may require increased insurance coverage at any time, and from time to time, based upon its assessment of the degree of risk for such project. Through the implementation of an OCIP, the City will furnish workers' compensation, general, excess, pollution liability and builder's risk insurance associated with the construction of Phase 1 of the Pure Water Program. The insurance will cover the City, the prime contractors, and all subcontractors at all tiers. The estimated cost for the OCIP is $17 million. The City is in the process of retaining an OCIP broker to manage the insurance coverage and the OCIP and anticipates issuing the notice-to-proceed in December 2018. Coverage is expected to be in place in the second quarter of Fiscal Year 2019.

WATER SYSTEM FINANCIAL OPERATIONS

Establishment of Water Service Charges

The primary revenue sources of the Water Utility Fund are generated from water sales to single family residential customers and other customer classes, capacity fees, interest earnings from the investments of available funds and rental income. City utility bills include water and sewer charges and storm drain fees but only receipts from water sales are revenues to the Water Utility Fund. The water component is comprised of two parts, a fixed monthly service charge and a commodity charge that is for the volume of water used. Bills are distributed on a bi-monthly basis for most customers and a monthly basis for high consumption residential, non-residential, and irrigation customers.

Periodically, the City will enlist the services of an outside consulting firm to perform a full cost of service ("COS") analysis, typically producing a rate case for two to five years. In 2013, the City conducted a COS analysis that resulted in a two-year rate case and rate increases of 7.25% (for CWA pass through costs) and 7.06% (6.56% for CWA pass-through costs and the remainder for increase in Water system costs) for Fiscal Years 2014 and 2015, respectively. The City last conducted a COS analysis in 2015 (the "2015 COS study"), which produced a five-year rate case (the "2016 Rate Case"). The 2015 COS study was based on comprehensive forecasted annual operation and maintenance and capital costs expenditures including the Pure Water Program for the Fiscal Years 2016 through 2020. The 2016 Rate Case started with the Department's budgeted Fiscal Year 2016 expenditures as its base year. Future years were adjusted for changes since the budget was developed and for anticipated changes in operations and the effect of inflation. See "WATER SYSTEM FINANCIAL OPERATIONS – Operation and Maintenance Expenditures." The 2016 Rate Case incorporated purchased water costs from CWA. With the Department's approved rate increases occurring July 1st of each year, the rate increases that were and will be implemented each fiscal year incorporate the approved CWA rate increase that will be effective in January during each fiscal year.

The 2016 Rate Case, which covered Fiscal Years 2016 through 2020, was approved by the City Council in November 2015 adhering to the Proposition 218 process. The City Council adopted rate increases of 9.8% on January 1, 2016, 6.4% on July 1, 2016, 6.4% on July 1, 2017, 5.0% on July 1, 2018 and 7.0% on July 1, 2019. CWA rate increase impacts to the City were projected to be 2.5% in Fiscal Years 2018 and 2019, and 3.0% in Fiscal Year 2020, which were based on current estimates at the time. Because actual impacts of the CWA pass through increases were different than the projections, the City passed through only the actual CWA pass-through cost impact to its ratepayers. The actual pass through impacts were as follows: Fiscal Year 2017 (2.96%); Fiscal Year 2018 (2.67%); and Fiscal Year 2019 (1.60%). The CWA pass through impact for Fiscal Year 2020 is currently projected to be 2.1%. See Table 13 for the actual rate increases for Fiscal Years 2016 through 2019.

TABLE 13
FIVE-YEAR WATER SERVICE CHARGE HISTORY FOR SINGLE FAMILY RESIDENTIAL, MULTI-FAMILY RESIDENTIAL, NON-RESIDENTIAL, IRRIGATION, AND TEMPORARY CONSTRUCTION
Fiscal Years 2015 through 2019
(Unaudited)

		Fiscal Year 2015 (effective 1/1/2015)	Fiscal Year 2016 (effective 1/1/2016)	Fiscal Year 2017 (effective 8/1/2016)	Fiscal Year 2018 (effective 8/1/2017)	Fiscal Year 2019 (effective 8/1/2018)
CWA pass-through costs:		6.56%	4.50%	2.97%	2.67%	1.60%
Increase in Water System costs[1]:		0.50%	5.30%	4.26%	4.26%	0.55%
Total Increase amount[2]:		**7.06%**	**9.80%**	**7.23%**	**6.93%**	**2.15%**
BASE FEES[3]						
Meter Size:	5/8 inch	$ 20.31	$ 22.26	$ 23.92	$ 24.22	$ 24.74
	3/4 inch	20.31	22.26	23.92	24.22	24.74
	1 inch	27.51	29.50	31.52	32.08	32.77
	1 1/2 inch	43.96	46.04	48.89	50.05	51.13
	2 inch	64.53	66.72	70.60	72.51	74.07
	3 inch	112.86	115.32	121.62	125.28	127.98
	4 inch	181.75	184.59	194.36	200.51	204.83
	6 inch	352.44	356.23	374.57	386.90	395.23
	8 inch	558.10	563.03	591.69	611.46	624.62
	10 inch	798.72	804.98	845.72	874.20	893.02
	12 inch	1,483.55	1,493.60	1,568.73	1,622.00	1,656.92
	16 inch	2,580.72	2,596.85	2,727.07	2,820.05	2,880.76
COMMODITY CHARGE						
Customer Type:						
Single Family Residential						
Tier 1	0-4 HCF[4]	$ 3.896	$ 4.240	$ 4.504	$ 4.842	$ 4.946
Tier 2	5-12 HCF	4.364	4.754	5.044	5.423	5.540
Tier 3	13-18 HCF	6.234	6.791	7.206	7.748	7.915
Tier 4	19+ HCF	8.766	9.550	10.134	10.895	11.130
Typical Single Family Monthly Bill[5]		$ 70.81	$ 77.25	$ 82.29	$ 86.97	$ 88.84
Multi-Family Residential	per HCF[6]	$ 4.650	$ 5.125	$ 5.449	$ 5.860	$ 5.986
Non-Residential[7]	per HCF[6]	4.470	5.020	5.327	5.718	5.841
Irrigation	per HCF[6]	4.947	5.666	6.032	6.496	6.636
Temporary Construction	per HCF[6]	4.947	6.023	6.133	6.607	6.749

(1) Increases in Water System costs due to CIP, implementation of Pure Water Program, and drought.
(2) Percentages reflect the total impact on Department water service charge revenue for the indicated fiscal year. Increased percentage amounts for individual customers may vary depending on the service type provided and actual volume of water delivered. Total Increase amounts for Fiscal Years 2017 to 2019 include additional sums relating to 30-day notice period for CWA-related pass-through costs.
(3) The base fee is dependent on the meter size.
(4) HCF (Hundred Cubic Feet) equals 748 gallons.
(5) Reflects base fee and commodity charge. Based on 12 HCF per month and an average meter size of 3/4 inch.
(6) One rate applies for all usage amounts.
(7) Non-Residential consists of Commercial and Industrial customer types.

Source: Public Utilities Department, City of San Diego.

The City is in the preliminary stages of reviewing various options for rates beginning Fiscal Year 2021. The City has engaged Raftelis Financial Consultants, Inc. to assist in the preparation of the COS analysis. The COS analysis will be based on a comprehensive forecast of maintenance and operation costs and capital expenditures over a multi-year period, including maintenance and operation costs and capital expenditures of the Pure Water Program. The review period of the COS is anticipated to be between three to five years, starting in Fiscal Year 2021. The corresponding cumulative rate increases are preliminarily projected to range from 20% to 28% (including rate increases resulting from both CWA pass throughs and revenue adjustments projected for the Department's maintenance and operations costs and capital expenditures). The COS analysis and Proposition 218 process are expected to be undertaken and completed in Fiscal Year 2020. Any new rates resulting from the COS and subsequent City deliberations are expected to be effective in Fiscal Year 2021. See "WATER SYSTEM FINANCIAL OPERATIONS – Financial Projects and Modeling Assumptions."

Water Service Charges. The Water System's water service charge for all retail user classes includes a fixed monthly service charge (also referred to as a base fee) and a commodity charge that is for the volume of water used. The base fee is determined by the size of a customer's meter, and is charged to the customer regardless of whether the customer uses water. The base fee is based upon the assumption that the Department incurs certain costs in order to be in a position to serve the commodity to the water customer upon demand. Those costs are incurred by the Department regardless of whether the customer uses the commodity or not. They include such costs as the general administrative costs of the Department for billing, payment processing, and account management related to the Water System. The size of the customer's connection provides an approximation of the amount of water the customer conceivably could have delivered to his or her property. While the service charge is charged to each water meter and varies with meter size, the commodity charge is applied to a customer's water usage.

The commodity charge is a set rate charge based upon each HCF of water consumed. The City has a tiered commodity charge structure for SFR customers that is broken down by water usage within each rate block. The remaining retail customers (MFR, Non-Residential, Temporary Construction and Irrigation) are billed under the same uniform commodity charge for their respective customer classification. See Table 13 above for a schedule of commodity charge(s) applicable to each customer class and the base fees for the various water meter sizes in the Water System through Fiscal Year 2019.

Capacity Charges. The term "Capacity Charge" means a charge imposed upon a person, firm, corporation or other entity incident to the granting of a permit for a new water connection or due to an increase in water usage by the addition of any type of dwelling, commercial or industrial unit, which charge is based upon an increase in water consumption as measured by equivalent dwelling units, and the proceeds of which are used to construct, improve and expand the Water System to accommodate the additional business of such added dwellings or commercial or industrial units.

Capacity charges are not treated as operating income for financial reporting purposes but are considered System Revenues and are accounted for in debt service coverage calculations. Pursuant to State law, capacity charges can be applied only for the purpose of paying costs associated with capital expansion, bonds, contracts, or other indebtedness of the Water System related to expansion. Because capacity charges are primarily collected on new construction within the City, revenues obtained from such charges vary based upon construction activity. The current capacity charge is $3,047 per Equivalent Dwelling Unit ("EDU"), and has been unchanged since last adjusted in 2007.

In February 2007, the City Council and Mayor approved raising the capacity charge by 19.5% to $3,047 per EDU, which was estimated to provide for full cost recovery for Water System expansion projects. The City will be undertaking a cost of service study in calendar year 2019 to determine the

amount of the new capacity charge, if necessary. The water available for use for a typical SFR is equated to one EDU and equals 500 gallons per day.

Non-residential customers are charged based upon calculated usage or an inventory of plumbing components that are assigned a number of "fixture units," which are converted to EDU's using a conversion factor that equates 20 fixture units to one EDU. The minimum capacity assigned to any user is one EDU.

The following table sets forth the historical capacity charge revenues from Fiscal Years 2014 through 2018. Aggregate capacity charge revenues may not equal the amount derived by multiplying the water capacity rate by the number of units because of individual customer account characteristics. Since capacity charge revenue is dependent on development activity within the City, capacity charge revenues are impacted by increases and decreases in residential and non-residential construction.

TABLE 14
WATER UTILITY FUND
HISTORICAL CAPACITY CHARGE REVENUES
Fiscal Years 2014 through 2018

Fiscal Year	New Equivalent Dwelling Units[(1)]	Capacity Charge Revenues[(2)]
2014	4,803	$ 14,623,833
2015	5,152	15,760,349
2016	4,578	14,452,683
2017	4,998	15,269,582
2018	5,722	17,543,421

(1) Unaudited.

(2) Audited. Amounts include potable and recycled capacity charge revenues. Amounts are not available to pay for operations and maintenance costs.

Source: Department of Finance and Public Utilities Department, City of San Diego.

Collection of Water Service Charges

In order for a person to receive service and be billed for water fees, he or she must contact the Department to have Water Service initiated. The person initiating the service does not have to be the owner of the property to which the water is delivered. Regardless of customer class, the customer has a meter from which the Department measures the amount of the water consumed. The meter is read by the Department to calculate the water fees to be charged to the customer based on his or her customer class.

Pursuant to the approved policies and procedures, 100% of the water used is billed, including water usage that occurred up to three years prior to the date of billing. These policies provide the Department authority to grant one 14-day payment time extension on any invoice to help customers weather short-term financial challenges and time extensions for payment under limited conditions, (*e.g.*, public health and safety, legal negotiations, or to avoid a negative impact to other ratepayers overall). Such policies and procedures also provide the Department the authority to grant a payment plan in only two circumstances: a customer receiving a bill greater than 200% of the usage on their normal bill or a customer being back-billed for services received but previously unbilled. In both cases, the customer is allowed only one payment plan at a time. Further, the approved policies provide that a security deposit, for those customers requiring one, will be equal to two average billing periods and a fee of $25 will be imposed for each payment returned unpaid.

Accounts Receivable

Typically, the Department seeks to collect unpaid bills by: (a) issuing a payment reminder notice 25 days after a bill is issued; (b) issuing a shut-off notice 38 days after a bill is issued; and (c) shutting off the customer's water service 48-54 days after a bill is issued. This procedure results in almost all past due bills being paid. If necessary, the Department establishes a payment plan for customers who are unable to pay a past due amount. Open accounts with an unpaid amount due of $60 or greater are referred to the City Treasurer for collection activities 75 days after the bill is issued. Once referred for collections, unpaid amounts due on subsequent bills issued on the account are referred 16 days after the bill is issued until all referred amounts are paid. An allowance is taken each Fiscal Year for accounts receivable that are not expected to be paid. During Fiscal Years 2014 through 2018, accounts receivable amounts outstanding for more than 120 days ranged from approximately $2.8 million to approximately $5 million. Water service charges to City utility customers are collected on the municipal utility bill, which also includes sewer service charges, storm drain fees and other related fees. Only water charges are revenues to the Water Utility Fund. Bills are distributed on a bi-monthly basis for most customers and a monthly basis for high consumption residential, non-residential, and irrigation customers.

The following table sets forth information related to accounts receivable and number of shut-offs.

TABLE 15
WATER CUSTOMER ACCOUNTS RECEIVABLE
AND SHUT-OFFS BY FISCAL YEAR
Fiscal Years 2014 through 2018
($ Amounts in Thousands)
(Unaudited; except as otherwise noted)

	2014	2015	2016	2017	2018
Water Sales Revenue[1]	$ 434,285	$ 439,744	$ 401,907	$ 488,172	$551,275
Accounts Receivable[2]	$ 76,610	$ 68,630	$ 61,585	$ 68,208	$ 81,812
Accounts Receivable Over 120 Days[2]	$ 4,484	$ 4,593	$ 2,798	$ 2,906	$ 4,966
% of Total Water Sales Revenues[3]	1.03%	1.04%	0.70%	0.60%	0.90%
Number of Shut-Offs[4]	18,066	17,373	16,642	13,479	8,564

(1) Audited.

(2) Amounts are as of June 30 and represent the receivable portion of billed customer accounts as of the end of each Fiscal Year.

(3) Percentage of Accounts Receivable over 120 days as compared to Total Water Sales Revenues.

(4) Shut-Offs for non-payment may include multiple shut-offs associated with the same account throughout the Fiscal Year.

Sources: The City's Comprehensive Annual Financial Reports for the indicated Fiscal Years 2014 through 2018 with respect to "Water Sales Revenue;" Public Utilities Department, City of San Diego, for all other line items.

Revenues

The Water Utility Fund's principal source of revenues is water service charges to City residents and non-residential enterprises as shown below. The following tables set forth the historical sources of water sales revenues of the Water Utility Fund for Fiscal Years 2014 through 2018, followed by the Water Utility Fund's Statements of Revenues, Expenses, and Changes in Fund Net Assets for Fiscal Years 2014 through 2018.

TABLE 16
HISTORICAL SOURCES OF WATER SALES REVENUES
Fiscal Years 2014 through 2018
($ Amounts in Thousands)
(Unaudited; except as otherwise noted)

Sources	2014	2015	2016	2017	2018
Retail					
Single Family Residential	$176,886	$176,841	$157,968	$187,360	$213,131
Multi-Family Residential	83,425	86,096	85,175	98,242	108,545
Non-Residential	95,284	102,237	99,615	117,676	127,011
Irrigation	55,975	50,924	37,136	53,515	67,858
Reclaimed	5,660	5,352	5,755	8,820	10,574
Wholesale to Other Retailers					
Treated[(1)]	14,711	15,375	13,505	18,367	19,614
Untreated	32	126	380	66	10
Reclaimed	2,312	2,793	2,373	4,126	4,532
Total[(2)]	**$434,285**	**$439,744**	**$401,907**	**$488,172**	**$551,275**

(1) Primarily reflects wholesale revenues from Cal-American Water Company.
(2) Audited.
Source: Department of Finance, City of San Diego.

TABLE 17
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION FOR THE WATER UTILITY FUND
(Audited)
($ Amounts in Thousands)

	2014	2015	2016[(1)]	2017	2018
OPERATING REVENUES					
Sales of Water	$ 434,285	$ 439,744	$ 401,907	$ 488,172	$ 551,275
Charges for Services	4,533	6,432	3,586	4,517	5,218
Revenue from Use of Property	7,007	6,693	6,003	5,850	6,104
Other	1,740	2,353	1,512	2,865	6,927
TOTAL OPERATING REVENUES	$ 447,565	$ 455,222	$ 413,008	$ 501,404	$ 569,524
OPERATING EXPENSES[(2)]					
Maintenance and Operations[(3)]	$ 91,357	$ 79,732	$ 84,364	$ 95,874	$ --
Cost of Purchased Water Used	207,721	237,274	201,098	222,555	--
Taxes[(4)]	1,963	2,117	2,165	2,299	--
Administration	54,498	58,599	72,311	81,730	--
Salary and Benefits	--	--	--	--	89,891
Supplies	--	--	--	--	211,688
Contracts	--	--	--	--	108,325
Information Technology	--	--	--	--	5,658
Energy and Utility	--	--	--	--	13,535
Other Expenses	--	--	--	--	4,334
Depreciation	48,957	51,935	55,882	55,885	57,007
TOTAL OPERATING EXPENSES	$ 404,496	$ 429,657	$ 415,820	$ 458,343	$ 490,438
OPERATING INCOME (LOSS)	$ 43,069	$ 25,565	$ (2,812)	$ 43,061	$ 79,086

(Table continued on next page.)

(Table continued from prior page.)

NONOPERATING REVENUES (EXPENSES)					
Earnings on Investments	$ 3,185	$ 2,714	$ 5,825	$ 749	$2,085
Federal Grant Assistance	109	--	--	3,359	3,126
Other Agency Grant Assistance	575	627	2,264	319	266
Gain (Loss) on Sale/Retirement of Capital Assets	(1,630)	(2,431)	(1,104)	(3,629)	(15,327)
Debt Service Interest Expense	(37,100)	(35,771)	(20,731)	(14,826)	(25,512)
Other	3,839	2,432	11,915	426	4,480
TOTAL NON OPERATING REVENUES (EXPENSES)	$ (31,022)	$ (32,429)	$ (1,831)	$ (13,602)	$ (30,883)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	$ 12,047	$ (6,864)	$ (4,643)	$ 29,459	$ 48,203
Capital Contributions	$ 37,250	$ 358,451[5]	$ 24,438	$ 26,150	$ 42,633
Transfers from Other Funds	44	58	90	156	--
Transfers from Governmental Funds	3,608	--	--	12	495
Transfers to Other Funds	(356)	(3,651)	(10,110)	--	(2,228)
Transfer to Governmental Funds	(7,094)	(16)	(16)	(16)	(14)
CHANGE IN NET POSITION	$ 45,499	$ 347,978	$ 9,759	$ 55,761	$ 89,089
Net Position at Beginning of Year	$1,638,417[6]	$1,572,384[7]	$1,920,362	$1,929,938[8]	$1,967,063[9]
NET POSITION AT END OF YEAR	$1,683,916	$1,920,362	$1,930,121	$1,985,699	$2,056,152

(1) Declines in Sales of Water and Cost of Purchased Water Used seen in Fiscal Year 2016 reflect the imposition of statewide water conservation mandates that impacted all California water agencies.

(2) Effective Fiscal Year 2018, the City modified the Operating Expense reporting presentation for Business-Type Funds, including Water Utilities in its CAFR. Cost of Purchase Water Used was divided between Supplies and Contracts, with $198,348 of the cost allocated to Supplies and $32,305 allocated to Contracts for Fiscal Year 2018.

(3) The City's new Operating Expense classifications became effective in Fiscal Year 2018.

(4) Includes annual property taxes and quarterly payments of taxes in-lieu to CWA.

(5) Pursuant to the ESP Agreement between CWA and the City, CWA built various facilities and infrastructure in order to raise the height of the San Vicente Dam and increase the reservoir's capacity. During Fiscal Year 2015, CWA conveyed the facilities and infrastructure related to the expansion, valued at over $330.4 million, to the City, which was the primary cause of the increase in Capital Contribution.

(6) Beginning balance restated due to the net effects of the implementation of GASB Statement No. 65, which became effective after December 15, 2012, and reclassification of worker's compensation.

(7) Beginning balance restated due to the net effects of the implementation of GASB Statement Nos. 68 and 71, which both became effective after June 15, 2014.

(8) Beginning balance restated due to the net effects of GASB Statement No. 73 implementation (see Note 1(v) in City's Fiscal Year 2017 CAFR).

(9) Beginning balance restated due to the net effects of GASB Statement No. 75 implementation (see Note 1(w) in City's Fiscal Year 2017 CAFR and Note 1(x) in the City's Fiscal Year 2018 CAFR).

Source: The City's Comprehensive Annual Financial Reports for Fiscal Years 2014 through 2018.

Management's Discussion and Analysis

The following discussion relates to certain items set forth in Table 17. Some of the following information in connection with the financial condition and results of operations of the Water Utility Fund for Fiscal Year 2018, is unaudited and should be read in conjunction with certain of the information contained in the City's CAFRs for Fiscal Years 2017 and 2018, and specifically the portion of the basic financial statements relating to the operation of the Water Utility Fund, which are available through EMMA and included in this Official Statement as Appendix E, respectively, and incorporated by reference in this Official Statement. See "FINANCIAL STATEMENTS" herein.

Operating Revenues. Total operating revenues for Fiscal Year 2018 were $569.5 million, which represented an increase of $68.1 million from the previous Fiscal Year. This was primarily due to an

increase in water sales revenue, which was the result of a 6.93% water rate increase that became effective on August 1, 2017, as well as an increase in the volume of water sold.

Operating Expenses. Total operating expenses for Fiscal Year 2018 were $490.4 million, an increase of $32.1 million from the previous Fiscal Year. This was primarily the result of the increased pension expenses, a one-time refund payment to the United States Navy, and an increase in the cost to purchase water.

Non-operating Revenues. Non-operating revenues for Fiscal Year 2018 increased by $5.1 million from non-operating revenues received in Fiscal Year 2017. This was primarily due to an increase in investment earnings and a reimbursement from a local agency.

Non-operating Expenses. Non-operating expenses increased by $22.4 million to $40.8 million during Fiscal Year 2018. This was due to a $10.7 million increase in debt service interest expense and a $11.7 million increase in the loss on sale/retirement of capital assets.

Contributions and Transfers. Capital contributions increased in Fiscal Year 2018 from Fiscal Year 2017 by $16.5 million due to recording additional assets related to the ESP Agreement between CWA and the City that raised the height of the San Vicente Dam and increased the reservoir's capacity. Transfers out increased in Fiscal Year 2018 by $2.2 million.

Water Utility Fund Reserves

The City has established accounts within the Water Utility Fund for four reserve funds: the Emergency Operating Reserve ("Operating Reserve"), the Secondary Purchase Reserve, the Rate Stabilization Fund Reserve ("Rate Stabilization Fund"), and the Emergency Capital Reserve ("Capital Reserve"). The Department operates these reserve funds in accordance with the City's reserve policy (the "City Reserve Policy"). The City's goals with respect to the City Reserve Policy are to provide adequate cash balances to ensure that the City meets its cash flow obligations, maximizes earnings on investments, minimizes borrowing costs and supports the high credit ratings on its bonds and other financial obligations. In the event amounts contained in a particular reserve are below the targeted reserve level as stated in the City Reserve Policy, the Mayor is to propose a plan as part of the budget for the subsequent Fiscal Year to replenish such reserve in a reasonable timeframe. The City's Reserve Policy is reviewed biennially. Changes are approved by the City Council and incorporated into City Council Policy. The most recent updates to the City Reserve Policy were approved by the City Council in June 2018. As of June 30, 2018, the Water Utility Fund had estimated total reserves of approximately $130.5 million.

Operating Reserve. The Operating Reserve is intended to be used in the event of a catastrophe that prevents the Water System from operating in its normal course of business. The reserve level is defined as the number of days of operation it could support in the event of a major disruption to the Water System. It is calculated based on the annual operating budget for the Fiscal Year, less the budgeted operating contingency and the budget for water purchases and debt service (including SRF loan repayments). The Operating Reserve target is equivalent to 70 days of operation. This reserve level target of 70 days recognizes that the Water System has a large diversified customer base, a steady and reliable demand for services, and other reserves available for specific needs. Use of the Operating Reserve is restricted to emergency situations, and City Council approval is required to appropriate these reserves. Any request to utilize the Operating Reserve will include a plan and timeline for replenishment, which may be in conjunction with the City Council authorization of a future cost of service study and rate adjustment. As of June 30, 2018, there was an estimated $40.1 million in the Operating Reserve (equivalent to 78.4 days of operation), compared to the target amount of $38.1 million.

Secondary Purchase Reserve. The Secondary Purchase Reserve was established to purchase additional water supply in case of a major drought or unforeseen emergency that diminishes the City's normal supply. The size of the reserve is equal to 6% of the annual water purchase budget (including commodity charge and fixed costs). City Council action is required in order to appropriate this reserve as well. As of June 30, 2018, there was an estimated $15.2 million in the Secondary Purchase Reserve.

Rate Stabilization Fund. The Rate Stabilization Fund was established and is maintained pursuant to the Master Installment Purchase Agreement. Transfers in and out of this fund serve as a revolving mechanism to mitigate potential fluctuations in the rates for the Water System operations, and maintain stable debt service coverage ratios for the Outstanding Obligations. The permitted uses of the Rate Stabilization Fund are limited to the Maintenance and Operation Costs of the Water System. The City Reserve Policy establishes a baseline target for the Rate Stabilization Fund in an amount equal to 5% of the prior Fiscal Year Water System total operating revenues. The funding level in the Rate Stabilization Fund can go up or down depending on year to year changes in the Water System's operating revenues and expenditures.

In Fiscal Year 2016, the Department transferred $7.5 million from the Rate Stabilization Fund to the System's operating funds to offset lower revenues resulting from the Department's extraordinary conservation efforts (which were taken in part to comply with the Governor's and SWRCB's conservation mandates) and to maintain contractually required debt service coverage levels. In Fiscal Years 2017 and 2018, revenues increased due in part to rate increases and the Department contributions of $23.5 million in Fiscal Year 2017 and $8 million in Fiscal Year 2018 to the Rate Stabilization Fund. For Fiscal Year 2018, the $70.1 million balance in the Rate Stabilization Fund exceeded the Department's reserve target by $44 million. See Table 18.

Emergency Capital Reserve. The Capital Reserve is intended to be used for emergency capital needs. The reserve is budgeted annually at $5.0 million in the Water System CIP budget. If the reserve is used to fund unforeseen emergency conditions resulting in the need to immediately repair or replace existing assets, approval from the Chief Financial Officer or the Chief Operating Officer is required. As of June 30, 2018, there was $5.0 million in the Capital Reserve.

TABLE 18
RESERVES AND TOTAL CASH AND CASH EQUIVALENTS
IN WATER UTILITY FUND
Fiscal Years 2014 through 2018[1]
($ Amounts in Thousands)
(Unaudited, except as otherwise noted)

	Actual				
	2014	**2015**	**2016**	**2017**	**2018**
Reserve Funds[2]					
Operating Reserve[3]	$ 30,662	$ 31,696	$ 40,108	$ 40,108	$40,108
Secondary Purchase Reserve	12,544	13,582	13,582	14,344	15,229
Rate Stabilization Fund	38,500	46,117	38,617	62,117	70,117
Capital Reserve[4]	5,000	5,000	5,000	5,000	5,000
Total Reserve Funds	$ 86,706	$ 96,395	$ 97,307	$ 121,569	$130,454
Total Cash and Cash Equivalents in Water Utility Fund[5]	$299,396	$250,477	$ 218,580	$ 218,370	$267,823
Days of Cash on Hand[6]	299	234	214	191	219

(1) Unaudited except for Total Cash and Cash Equivalents in Water Fund for Fiscal Years 2014 through 2018.
(2) Established in accordance with City Reserve Policy.
(3) Described as Emergency Operating Reserve in the City Reserve Policy.
(4) Described as the Emergency Capital Reserve in the City Reserve Policy.
(5) Audited. Includes Cash and Investments (which includes the Reserve totals above), Restricted Cash and Investments, less Investments Not Meeting the Definition of Cash Equivalents.
(6) Days of cash on hand is calculated by: Cash and Investments/(Operating Expenses less Depreciation / 365 days).
Source for Cash and Cash Equivalents: The City's Comprehensive Annual Financial Reports for Fiscal Years 2014 through 2018.
Source for Reserves: Public Utilities Department and Department of Finance, City of San Diego.

The following table sets forth the debt service coverage for the Water Utility Fund for Fiscal Years 2014 through 2018.

TABLE 19
CALCULATION OF HISTORIC DEBT SERVICE COVERAGE
Fiscal Years 2014 through 2018
($ Amounts in Thousands)
(Unaudited)

		Fiscal Year				
		2014	**2015**	**2016**	**2017**	**2018**
All System Revenues prior to Rate Stabilization Fund transfers[1]		$473,908	$475,874	$447,555	$522,020	$597,608
Transfers (to)/from Rate Stabilization Fund		--	(7,600)	7,500	(23,500)	(8,000)
Total System Revenues[1]		**$473,908**	**$468,274**	**$455,055**	**$498,520**	**$589,608**
Total Maintenance & Operation Costs[2]		**(362,989)**	**(381,389)**	**(370,064)**	**(402,475)**	**(435,673)**
Net System Revenues absent transfers to or from the Rate Stabilization Fund	A	$110,919	$ 94,485	$ 77,491	$119,545	$161,935
Net System Revenues	B	**110,919**	**86,885**	**84,991**	**96,045**	**153,935**
Less: Interest Earnings on Reserve Fund[3]		(1,017)	(897)	(4,474)	(4)	(35)
Adjusted Net System Revenues	C	109,902	85,988	80,517	96,041	153,900
Senior Obligations[4]						
Total Senior Debt Service		$ 39,921	$ 40,063	$ 40,993	$ 4,005	$ 4,259
Less: Interest Earnings on Reserve Fund[3]		(1,017)	(897)	(4,474)	(4)	(35)
Adjusted Senior Debt Service	D	38,904	39,166	36,519	4,001	4,224
Adjusted Senior Debt Service Coverage[5][6]	C/D	**2.82x**	**2.20x**	**2.20x**	**24.00x**	**36.43x**
All Obligations[7]						
Total Debt Service	E	$ 66,691	$ 66,835	$ 67,389	$ 61,842	$ 65,613
Aggregate Debt Service Coverage absent transfers to or from the Rate Stabilization Fund	A/E	1.66x	1.41x	1.15x	1.93x	2.47x
Aggregate Debt Service Coverage[6]	B/E	**1.66x**	**1.30x**	**1.26x**	**1.55x**	**2.35x**

(1) "System Revenues," as defined in the Master Installment Purchase Agreement, includes operating and non-operating receipts (i.e. interest earnings, capacity charges, other income) as well as transfers to and from certain funds and the cash-based components of capital contributions. Pursuant to the Master Installment Purchase Agreement, there is deducted from "System Revenues" any amounts transferred into the Rate Stabilization Fund and there is added to "System Revenues" any amounts transferred out of such Rate Stabilization Fund. Amounts in the Rate Stabilization Fund are not included in the calculation of debt service coverage for purposes of the Master Installment Purchase Agreement. The amounts reflected as "All Revenues" are revenues of the Water System prior to any such transfer.

(2) Amounts under Total Maintenance and Operation Costs, in accordance with the Master Installment Purchase Agreement, generally include maintenance and operations, administration, cost of water purchases, transfers to other funds, pension benefits, and retiree health costs, and exclude depreciation.

(3) Interest earnings on the Senior Debt Service Reserve Fund are netted out of both System Revenues and Total Debt Service to calculate Senior Debt Service Coverage Ratios, but are not netted out for Aggregate Debt Service Coverage Ratios.

(4) Senior Obligations consist of Senior Bonds and Senior SRF Loans. Since June 2016, the only Senior Obligations Outstanding are the Senior SRF Loans.

(5) The Adjusted Debt Service Coverage increased significantly in Fiscal Year 2017 because all outstanding Senior Bonds were refunded with proceeds of Subordinated Bonds in June 2016.

(6) Pursuant to Section 6.08(a) of the Master Installment Purchase Agreement, the City shall fix, prescribe and collect rates and charges for the Water Service which will be at least sufficient to yield the greater of (1) Net System Revenues sufficient to pay during each Fiscal Year all Obligations payable in such Fiscal Year or (2) Adjusted Net System Revenues during each Fiscal Year equal to 120% of the Adjusted Debt Service for such Fiscal Year.

(7) All Obligations include Outstanding Senior Obligations and the Outstanding Subordinated Obligations.

Source of Footnotes: Department of Finance and Public Utilities Department, City of San Diego.

Source: Statistical Section (Unaudited) of the City's Comprehensive Annual Financial Reports for Fiscal Years 2014 through 2018 (excluding data under the headings "Net System Revenues absent transfers to or from the Rate Stabilization Fund" and "Aggregate Debt Service Coverage absent transfers to or from the Rate Stabilization Fund"); Department of Finance for data under the headings "Net System Revenues absent transfers to or from the Rate Stabilization Fund" and "Aggregate Debt Service Coverage absent transfers to or from the Rate Stabilization Fund"

Financial Projections and Modeling Assumptions

Table 20 below sets forth the financial forecast for Fiscal Years 2019 through 2024.

The figures incorporate the actual rate increase of 2.15% that went into effect August 1, 2018 and a projected rate increase of 6.1% for Fiscal Year 2020.

For Fiscal Years 2021 through 2024, the financial projections assume rate increases of 4.0% for Departmental needs. Additionally, for Fiscal Years 2021 through 2024, CWA rate increase impacts to the City are projected to be between 2.0% and 2.9%. The City has historically increased water rates over time to adjust to increases in the cost of water purchased from CWA, which increases are generally based on the costs for the infrastructure, maintenance and operation of CWA's water supply system and the cost CWA pays to purchase water from MWD. See "WATER SYSTEM FINANCIAL OPERATIONS – Establishment of Water Service Charges."

The assumed rate increases for Fiscal Years 2021 through 2024 are based on the Department's forecasted annual maintenance and operation costs and capital expenditures. The assumed rates are also intended to maintain the Water Utility's core financial metrics of cash balances, reserves, and financial debt service coverage ratios. These rate increase assumptions are subject to change based on the completion of the COS analysis and actual rate increases will vary. Actual rate increases that are lower than assumed rate increases would result in less favorable financial metrics. Likewise, actual rate increases that are higher than assumed rate increases would result in more favorable financial metrics in those years. In order to achieve desired financial results, the Department may exercise discretion in re-evaluating projected capital expenditures and discretionary maintenance and operation costs.

Net System Revenues are projected to increase by approximately 98% over the period of Fiscal Year 2019 through Fiscal Year 2024, remaining fairly constant for Fiscal Year 2021 through Fiscal Year 2022, and then increasing through Fiscal Year 2024 primarily due to projected water rate increases and declining water purchases in Fiscal Year 2024 as Phase 1 of the Pure Water Program comes online. Maintenance and operation costs are projected to increase by approximately 18% over the period of Fiscal Year 2019 through Fiscal Year 2024 (Department expenditures increase by $50 million, and Water Purchases increase by $46 million through Fiscal Year 2023 before decreasing in Fiscal Year 2024 as Phase 1 of the Pure Water Program comes online).

The forecast for Fiscal Year 2019 through Fiscal Year 2024 incorporates certain assumptions adopted by the Department, including assumed inflation and interest rates. The System Revenues for Fiscal Year 2019 through Fiscal Year 2024 reflect (a) an account growth rate of 0.25% per Fiscal Year for all customer classes except recycled water; (b) an increase of approximately $3.0 million in recycled water revenues for Fiscal Year 2019 through Fiscal Year 2020 due to City Council approved rate increases; and (c) assumed interest rates estimated for projected earnings on fund balance range between 2.21% and 3.25% for Fiscal Year 2019 through Fiscal Year 2024.

The maintenance and operation costs for Fiscal Year 2019 through Fiscal Year 2024 reflect (a) an average increase of 2.8% per Fiscal Year for energy and utilities, 2.7% per Fiscal Year for contracts, and 2.9% per Fiscal Year for supplies; (b) Water Utility Fund personnel expenditure increases related to the approved San Diego Municipal Employees' Association bargaining agreement and the proposed American Federation of State, County, and Municipal Employees Local 127 tentative agreement; and (c) Debt Service for Fiscal Year 2019 and future years include the anticipated issuance of the 2018A Bonds, issuance of commercial paper and a combination of future bond offerings, the WIFIA Loan, and SRF loans secured by installment payments pursuant to the Master Installment Purchase Agreement. See also "WATER SYSTEM FINANCIAL OPERATIONS – Anticipated Additional Obligations."

TABLE 20
PROJECTED NET SYSTEM REVENUES AND DEBT SERVICE COVERAGE
(as of November 15, 2018)
Fiscal Years 2019 through 2024
($ Amounts in Thousands)

DESCRIPTION	Fiscal Year 2019 Projected[1]	Fiscal Year 2020 Projected[2]	Fiscal Year 2021 Projected	Fiscal Year 2022 Projected	Fiscal Year 2023 Projected	Fiscal Year 2024 Projected
System Revenues						
Operating Revenues[2]	$577,281	$612,737	$653,369	$693,089	$734,624	$787,220
Interest Income on Operating Funds	6,261	8,609	10,787	10,227	9,813	10,916
Interest Earnings on Debt Service Reserve Funds[3]	165	165	165	165	165	165
Other Non-Operating Revenues	245	436	436	436	436	436
Capacity Charge Revenue[4]	12,150	14,400	14,400	14,400	14,400	14,400
Grant Proceeds	420	280	0	0	0	0
Transfers (to)/from Rate Stabilization Reserve	0	0	0	0	0	0
Transfers (to)/from Secondary Purchase Reserve	(921)	0	(967)	(877)	(921)	0
Total System Revenues	$595,601	$636,627	$678,190	$717,440	$758,517	$813,137
Maintenance and Operation Costs						
Water Purchases[5]	$269,162	$268,804	$285,274	$299,885	$315,241	$286,366
Water System Expenses[6]	175,800	188,585	193,634	198,121	202,385	206,517
Pure Water Program Expenses[7]	10,469	10,565	10,592	28,202	33,902	43,199
Total Maintenance and Operation Costs	$455,431	$467,954	$489,500	$526,208	$551,528	$536,081
Net System Revenues	$140,170	$168,673	$188,690	$191,232	$206,989	$277,055
Senior Debt Service Coverage						
Adjusted Net System Revenues[8]	$140,149	$168,652	$188,669	$191,211	$206,968	$277,034
Adjusted Senior Debt Service[9][10]	6,245	7,735	10,866	14,980	20,031	27,908
Senior Debt Service Coverage[9]	22.44x	21.80x	17.36x	12.76x	10.33x	9.93x
Aggregate Debt Service Coverage						
Net System Revenues	$140,170	$168,673	$188,690	$191,232	$206,989	$277,055
Senior Debt Service[10]	6,266	7,756	10,887	15,001	20,052	27,930
Subordinate Debt Service[10]	66,608	82,857	92,686	107,311	111,857	120,536
Aggregate Debt Service Coverage[10]	1.92x	1.86x	1.82x	1.56x	1.57x	1.87x

(1) Fiscal Year 2019 projections are based on Fiscal Year 2018 actual results.

(2) Includes City Council approved rate increases through Fiscal Year 2020, and projected rate increases of 6.9%, 6.4%, 6.3%, and 6.0% for Fiscal Years 2021 through 2024, respectively. Projected rate increases for Fiscal Years 2021 through 2024 are subject to change based on the completion of a future COS analysis and City Council approval of the rate case. Debt service coverage in Fiscal Years 2021 through 2024 will be lower than projected if the actual approved rate increases are lower than current projections. See "WATER SYSTEM FINANCIAL OPERATIONS – Establishment of Water Service Charges."

(3) Includes interest earnings on reserve funds for Senior Obligations and Subordinated Obligations.

(4) Capacity Charge revenue is based on projected population growth and building permits.

(5) Water purchase projections incorporate CWA's projected rate increases. See "WATER SYSTEM FINANCIAL OPERATIONS – Establishment of Water Service Charges."

(6) Includes costs of maintenance and operations, administration, pension benefits and retiree health costs, and the projected cost impacts from the recently negotiated labor agreements with employee bargaining organizations. See "Labor Relations" below. This does not include Pure Water Program costs, which are reflected below.

(7) Includes primarily Pure Water Program pre-design and planning costs in Fiscal Years 2019 through 2021, with the ramp up of operating costs for Phase 1 starting in Fiscal Year 2022. Full operating costs begin in Fiscal Year 2024. The operating costs include performance payments to a private party for a new power generation facility at the North City Water Reclamation Plant; performance payments are anticipated to commence in Fiscal Year 2022, with full annual payments of $16 million starting in Fiscal Year 2024. See "WATER SUPPLY – Pure Water Program." Also reflects operating costs for the Central Area Demonstration Facility in Fiscal Year 2023, which is approximately $0.8 million annually, and concludes in Fiscal Year 2026.

(8) Adjusted Net System Revenues is Net System Revenues less earnings from investments in the Common Senior Debt Service Reserve Fund.

(9) Adjusted Senior Debt Service is the Senior Debt Service less earnings from investments in the Common Senior Debt Service Reserve Fund.

(10) Reflects scheduled debt service on outstanding obligations, projected debt service on additional senior lien and subordinate bonds the City assumes to issue, the WIFIA Loan, and additional senior lien SRF loans the City expects to receive from the SWRCB.

Source: Public Utilities Department, City of San Diego.

The Water Utility Fund 2016 Rate Case supports the Fiscal Years 2019-2020 capital program and operational expenditures. The ongoing CIP and operational expenditures are rate dependent, including, particularly, the Water Utility Fund's share of Pure Water Program expenditures in Fiscal Years 2021 through 2024. The City anticipates that additional rate capacity is necessary after Fiscal Year 2020. The City expects to perform cost of service analysis to prepare a new rate case for recommended rate adjustments for the Water Utility Fund for Fiscal Year 2021 and later Fiscal Years.

The Department is currently in the process of preparing a Five-Year Financial Outlook (the "Outlook") for Fiscal Years 2020 through 2024 that will be reviewed by the City Council in early 2019, and will serve as a framework for the development of the Fiscal Year 2020 Proposed Budget for the Water Utility Fund. Assumptions in the Outlook will mirror the assumptions applied in Table 20 above, though the potential for changes to the Outlook's assumptions in outer years exists. Projections used are as of November 2018 and are based on the best information available to the Department.

The achievement of certain results or other expectations contained in Table 20 involve known and unknown risks, uncertainties, and other factors that may cause actual results, performance, or achievements reflected in Table 20 to be materially different from any future results, performance, or achievements expressed or implied in such Table 20. Although, in the opinion of the Department, such projections are reasonable, there can be no assurance that any or all of such projections will be realized or predictive of future results. See also "INTRODUCTION – Forward-Looking Statements."

Outstanding Indebtedness

As of November 15, 2018, Senior Obligations consisted of $78,332,490 principal amount of loans from the Drinking Water State Revolving Fund (the "Senior SRF Loans"). There are no Outstanding Senior Bonds. As of November 15, 2018, there was $812,654,000 aggregate principal amount of Outstanding Subordinated Obligations that are payable from Net System Revenues on parity with the 2018 Subordinated Installment Payments. The Outstanding Subordinated Obligations principal amount does not include the City's borrowing of up to $614 million pursuant to the WIFIA Loan Agreement as the City has not yet requested disbursements of amounts under the WIFIA Loan. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – Senior Obligations" and "– Subordinated Obligations."

The following table sets forth as of November 15, 2018 the outstanding indebtedness secured by installment payments to be made by the City from Net System Revenues.

TABLE 21
OUTSTANDING DEBT
As of November 15, 2018
(Unaudited)

	Final Maturity	Outstanding Principal Amount as of November 15, 2018
Senior Obligations:		
Senior SRF Loans		
Miramar Water Treatment Plant	July 1, 2031	$ 14,014,250
Alvarado Water Treatment Plant	July 1, 2031	8,409,848
Otay Water Treatment Plant	January 1, 2032	13,099,038
Harbor Drive Pipeline Replacement	January 1, 2036	9,509,547
Lindbergh Field Pipeline Replacement	January 1, 2036	2,932,504
University Ave Pipeline Replacement	January 1, 2039[(1)]	23,047,417
69th Street and Mohawk Pump Station	January 1, 2050[(1)]	7,319,886
Total SRF Loans		$ 78,332,490
Total Senior Obligations		$ 78,332,490
Subordinated Obligations[(2)]:		
2012A Subordinated Bonds	August 1, 2032	$119,360,000
2016A Subordinated Bonds	August 1, 2045	39,115,000
2016B Subordinated Bonds	August 1, 2039	448,290,000
Commercial Paper Notes[(3)]	Varies (7 – 180 days)	205,889,000
Total Subordinated Obligations		$812,654,000
Total All Obligations		$890,986,490

(1) The project remains under construction. The indicated maturity date and principal amount are based on loan disbursements as of November 15, 2018. The maturity date and principal amount will be finalized upon completion of the project.

(2) Outstanding Subordinated Obligations does not include the City's borrowing of up to $614 million pursuant to the WIFIA Loan Agreement as the City has not yet requested disbursements of amounts under the WIFIA Loan and no principal is outstanding under the WIFIA Loan.

(3) All Outstanding Commercial Paper Notes will be refunded with the 2018 Bonds.

Source: Debt Management Department and Public Utilities Department, City of San Diego.

See "Capital Improvement Financing Plan" above and "Anticipated Additional Obligations" below. Additional obligations are expected to include additional SRF loans received from the SWRCB, payments with respect to which are expected to be senior in right of payment to the City's obligation to make 2018 Subordinated Installment Payments.

In addition, the City has entered into various Master Lease Agreements (the "Equipment Leases") under which the Department has financed certain equipment and vehicles. Lease payments due on a total principal amount of $2.4 million are payable from amounts in the Water Utility Fund, subsequent to the payment of all Senior Obligations and all Subordinated Obligations. The lease payments payable from amounts in the Water Utility Fund are not secured by a pledge of or lien on Net System Revenues and therefore are neither a Senior Obligation nor a Subordinated Obligation. The lease payments allocated to the Water Utility Fund are made from any available moneys in the Water Utility Fund. Final payment of the lease payments is due on July 1, 2022. As of the date of this Official Statement, other than the obligations under the Equipment Leases, the Senior SRF Loans and the WIFIA Loan, the Department has

not entered into any direct bank loans or issued any direct placement debt secured or payable from amounts in the Water Utility Fund.

The City has no general obligation bonds outstanding (for water purposes or otherwise) and has no immediate plans to issue such indebtedness. See "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Financing Plan."

Anticipated Additional Obligations

Pursuant to the Master Installment Purchase Agreement, the City may incur additional obligations, payments with respect to which will be senior to, or on parity with, the City's obligation to make 2018 Subordinated Installment Payments, subject to satisfaction of the conditions specified in the Master Installment Purchase Agreement. Table 12 sets forth the projected sources and uses of funds for the Water System CIP for Fiscal Years 2019 through 2024.

The City anticipates issuing additional debt in Fiscal Years 2019 through 2024 to finance the costs of certain projects in the Water System Baseline CIP in the approximate amount of $821 million through a combination of SRF loans, revenue bonds, and commercial paper. Of this amount, $17 million is expected from existing SRF loans, $212 million from SRF loans for which the City intends to apply, and $592 from bonds and commercial paper combined. The expected receipt of the additional SRF loan proceeds and bond funds are included in the City's Financial Rate Model. Proceeds from the additional SRF loans will provide funding in Fiscal Years 2019 through 2024, with interest only repayment projected to begin in Fiscal Year 2019 until construction completion of the projects, which vary from Fiscal Year 2019 to Fiscal Year 2024. Any additional SRF loans are assumed to be senior liens, payable on parity with the Net System Revenues securing the Senior Obligations. The lien status of future obligations payable from System Revenues is yet to be determined.

In addition, the City expects to incur additional Obligations in Fiscal Years 2019 through 2024 to finance the costs of the Pure Water Program in the approximate amount of $98 million through a combination of revenue bonds and commercial paper.

See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – Issuance of Additional Obligations Under the Master Installment Purchase Agreement," "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Financing Plan" and "RISK FACTORS – Pure Water Program."

Labor Relations

Unless otherwise indicated, the information under this heading "Labor Relations" is a discussion of labor relations for all employees of the City.

General. The City's represented employees are represented by six recognized employee organizations. The employee organizations and the number of employees represented by each organization are set forth in the table below. The City also employs a number of employees in the classified service and the unclassified service who are unrepresented. The Fiscal Year 2019 Budget included 578.98 unrepresented positions, excluding elected officials. The Mayor has authorized a 3.3% general salary increase for all unrepresented employees in Fiscal Year 2019.

TABLE 22
CITY OF SAN DIEGO
EMPLOYEE ORGANIZATIONS

Organization[1]	Represented Employees[2]
San Diego Municipal Employees' Association	5,195
American Federation of State, County, and Municipal Employees, Local 127	2,094
San Diego Police Officers Association	2,035
San Diego City Firefighters, International Association of Firefighters, Local 145	944
California Teamsters Local 911	162
Deputy City Attorneys Association of San Diego[3]	155

(1) Represents classified employees, except where otherwise noted.
(2) As of the City's Fiscal Year 2019 Adopted Budget.
(3) Represents unclassified deputy city attorneys.
Source: Fiscal Year 2019 Adopted Budget, Department of Finance, City of San Diego

As provided in the Fiscal Year 2019 Adopted Budget, there are approximately 784 full time equivalent employees of the Department (Water Branch), of which approximately 428 are represented by the MEA, and approximately 302 are represented by AFSCME Local 127. The remaining employees are unrepresented.

Collective Bargaining Agreements. The City has collective bargaining agreements with each of its recognized employee organizations effective through June 30, 2020, except the Deputy City Attorneys Association of San Diego, which has an agreement effective through June 30, 2019. All collective bargaining agreements include pay increases in Fiscal Year 2019 as described below

MEA. The City's collective bargaining agreement with MEA is effective through June 30, 2020. MEA-represented employees received a 3.3% increase in pensionable compensation in Fiscal Year 2019 and will receive another 3.3% increase in pensionable compensation in Fiscal Year 2020. In addition, effective in Fiscal Year 2019 there were special salary adjustments ranging from 4.3% to 7% for certain classifications experiencing recruitment and retention issues. In April 2018, the City Council approved additional special adjustments ranging from 1% to 10% to be implemented on January 1, 2019 and again on January 1, 2020. Additionally, in December 2017, the City Council approved pay increases for certain Fire-Rescue Department dispatchers, who have an Emergency Medical Dispatch Certification, over several years, specifically 5% additional pay on January 1, 2019, 5% on July 1, 2019; and 2.5% on January 1, 2020. On October 16, 2018, the City Council approved pay increases ranging from 4% to 16% to be implemented the first full pay period following January 1, 2019, and 4% to 16% to be implemented the first full pay period following January 1, 2020 for Infrastructure Premium Pay for certain Engineers and Land Surveyor, who have a state registration as an engineer, geologist or land surveyor, or have an Engineer-in-Training, Land Surveyor-in-Training or Geologist-in-Training certification.

AFSCME Local 127. The City's collective bargaining agreement with AFSCME Local 127 is effective through June 30, 2020. AFSME Local 127-represented employees received a 3.3% general salary increase in pensionable compensation in Fiscal Years 2019 and will receive another 3.3% general salary increase in Fiscal Year 2020. In addition, effective in Fiscal Year 2019 there were special salary adjustments ranging from 5% to 10% for certain classifications experiencing recruitment and retention issues. In April 2018, the City Council approved additional special adjustments ranging from 5% to 10%

to be implemented in Fiscal Year 2019 (on January 1, 2019) and again in Fiscal Year 2020 (on January 1, 2020) for certain classifications. The agreement also includes an increase to tool allowances for Carpenters and Apprentices for Fiscal Years 2016 through 2019.

POA. The City's collective bargaining agreement with POA is effective through June 30, 2020. POA-represented sworn officers will receive pensionable general salary increases as follows: 8.3% effective the first full pay period following July 1, 2018, 5% effective the first full pay period following January 1, 2019, 7.3% effective the first full pay period following July 1, 2019, and 5% effective the first full pay period following January 1, 2020, for a total of 25.6% increase by the end of Fiscal Year 2020. In addition, POA-represented sworn officers with 20 or more years of service received an additional 5% pensionable add-on pay effective the first full pay period following July 1, 2019. As part of the agreement reached with POA, the additional Flexible Benefit Plan allotment which was to be received by POA-represented employees in Fiscal Year 2020 of approximately $6,728 per employee was eliminated. Effective the first full pay period in Fiscal Year 2019 there are special assignment pay increases ranging from 3.5% to 5% for certain classifications that perform duties as Tactical Flight Officers and primary pilots. This agreement also includes increases in Fiscal Years 2016 through 2019 to flexible benefits credits for all POA-represented employees with 8 or more years of service as a sworn police officer.

IAFF Local 145. The City's collective bargaining agreement with IAFF Local 145 is effective through June 30, 2020. IAFF Local 145-represented employees received a 3.3% general salary increase in pensionable compensation in Fiscal Year 2019 and will receive another 3.3% general salary increase in pensionable compensation in Fiscal Year 2020.

Teamsters Local 911. The City's collective bargaining agreement with Teamsters Local 911 is effective through June 30, 2020. Teamsters Local 911-represented employees received a 3.3% general salary increase in pensionable compensation in Fiscal Years 2019 and will receive another 3.3% general salary increase in pensionable compensation in Fiscal Year 2020. In addition, beginning in Fiscal Year 2019 new specialty pays ranging from 3% to 5% will be provided for participation on specialty teams or special assignments.

DCAA. The City's collective bargaining agreement with DCAA is effective through June 30, 2019. DCAA-represented employees received a 3.3% general salary increase in pensionable compensation in Fiscal Year 2019. In addition, effective in Fiscal Year 2019 there will be special salary adjustments ranging from 2% to 3% for Deputy II, IV and V due to recruitment and retention issues. The agreement also contains a $500 increase to flexible benefit credits in Fiscal Year 2019 for DCAA-represented employees.

Insurance and Liability Claims

General. The City is self-insured for long term disability. The City is self-insured up to $5 million for workers' compensation with statutory excess limits above that. For liability claims, the City is self-insured up to $3 million per occurrence with a one-time individual member corridor deductible of $2.5 million. The City carries excess liability limits up to $50 million inclusive of the Self-Insured Retention and corridor. The Department is covered by the City's insurance coverage

Property and Flood Insurance. The City participates in the joint purchase of property insurance and flood insurance through the CSAC-EIA pool (policy term March 31, 2018 through March 31, 2019), which includes flood and earthquake coverage for certain scheduled locations, including bond financed locations of the Water System.

This joint purchase of the City's "All Risk" property insurance, insuring approximately $4.8 billion of City property, provides coverage for loss to City property under the primary policy up to $25 million per occurrence, with a $25,000 deductible. Additional excess limits are available as part of the City's insurance property program through CSAC-EIA where coverage "towers" with designated coverage limits are provided. Coverage towers are groups of properties, which are diversified based on ownership (risk-pool members) and geographical location. The City participates in four coverage towers with dedicated coverage limits of $600 million for "All Risk" and Flood. Additional rooftop limits of $200 million for "All Risk" may be accessible. There is no sharing of limits among the City and member counties of the CSAC-EIA pool, unless the City and member counties are mutually subject to losses due to the same occurrence. Limits and coverage may be adjusted periodically in response to requirements of bond financed projects, acquisitions, and in response to changes in the insurance marketplace. The City can give no assurance that any future losses will be covered or that its insurance provider will be able to cover any such losses.

Earthquake Insurance. CSAC-EIA's insurance property program structure of dedicated tower limits applies also to Earthquake coverage. The City participates in four coverage towers. Earthquake coverage is provided for designated buildings/structures in the amount of $100 million under primary policies per tower, and additional excess rooftop limits of $440 million may be accessed. The earthquake coverage is subject to a 2% of total insured values deductible per unit per occurrence, subject to a minimum of $100,000, and a maximum of $50 million effective through March 31, 2019. The City's earthquake coverage is purchased jointly and limits are shared with the member counties in the CSAC-EIA pool. Due to the potential for geographically concentrated earthquake losses, the CSAC-EIA pool is geographically diverse to minimize any potential sharing of coverage in the case of an earthquake. Depending on the availability and affordability of earthquake insurance, the City may elect not to purchase such coverage in the future, or the City may elect to increase the deductible or reduce the coverage from present levels. Depending on availability and affordability of earthquake insurance, the City may elect not to purchase such coverage in the future.

Insurance for the Water System. Coverage under the City's CSAC-EIA policy extends to liability arising out of the operation of the Water System, including, among other assets, treatment plants, pump stations, administration buildings, garages, warehouses, concession buildings, and labs. The City does not maintain any insurance for the pipelines of the Water System because such insurance is not available at commercially reasonable rates. The City is not obligated under the Master Installment Purchase Agreement to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Water System.

See Note 15 "– RISK MANAGEMENT" contained in the City's CAFR for Fiscal Year 2017, which is available through EMMA and is incorporated by reference in this Official Statement, and Note 15 "– RISK MANAGEMENT" contained in the City's CAFR for Fiscal Year 2018, attached as Appendix E, for additional information on the City's insurance coverages. See "FINANCIAL STATEMENTS" herein.

The following table sets forth the liabilities claims budget and expenditures for liability claims of the Water System for Fiscal Years 2013 through 2017.

TABLE 23
WATER UTILITY FUND LIABILITY CLAIMS BUDGET AND EXPENDITURES
Fiscal Years 2014 through 2018
(Unaudited)

Fiscal Year	Budget	Expenditures[(1)]
2014	$1,295,600	$4,386,039
2015	1,295,600	4,554,115
2016	1,295,600	2,671,028
2017	1,995,600	4,256,340
2018	2,095,600	5,873,310

(1) Over-budget expenditures are paid from the Water Utility Fund balance available for appropriations.

Source: Public Utilities Department and Risk Management Department, City of San Diego.

Investment of Funds

General. Amounts in the funds and accounts of the Water Utility Fund are invested by the City Treasurer in the City Treasurer's Pooled Investment Fund (the "City Pool") described below. The City accounts for such amounts separately from other funds of the City. Approximately 10.7% of the City Pool is allocable to the Water Utility Fund.

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

The following table sets forth the investments in the City Pool as of September 30, 2018.

TABLE 24
CITY OF SAN DIEGO POOLED INVESTMENT FUND
As of September 30, 2018
($ Amounts in Thousands)
(Unaudited)

Investment Instrument	Book Value	Fair Value	Percent of Total[(1)]
U.S. Treasury Notes	$422,623	$416,882	20.04%
Agency Discount Notes	24,480	24,661	1.16
Agency Notes & Bonds	319,712	315,456	15.16
Supranationals[(2)]	115,125	113,436	5.46
Commercial Paper	247,027	248,951	11.71
Corporate Notes & Bonds	505,868	500,741	23.98
Local Agency Investment Fund	61,467	61,467	2.91
Asset Backed Securities	413,065	410,956	19.58
TOTAL INVESTMENTS	**$2,109,367**	**$2,092,550**	**100.00%**

(1) Based on book value.

(2) Supranationals are entities formed by two or more central governments through international treaties. Examples are the International Bank for Reconstruction and Development and the Inter-American Development Bank.

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

The City Pool is not invested in any structured investment vehicles or mortgage-backed securities. In addition, the City has no outstanding swap arrangements or liquidity facilities.

A summary of the investments held by the City Pool as of June 30, 2018, a description of the City's Investment Policy, as well as a list of investments authorized under the California Government Code and the City's Investment Policy, are set forth in the City's CAFR at note 3, "Cash and Investments."

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

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

San Diego City Employees' Retirement System – Water Utility Fund Contribution

General. The City faces significant financial challenges in addressing an unfunded pension liability of approximately $2.76 billion as of June 30, 2017. However, the Water Utility Fund's proportionate share of the City's Actuarially Determined Contribution ("ADC") to SDCERS was approximately 5.6% (equal to approximately $17.05 million or 3.7% of the Water System's Maintenance and Operation Costs, based on a City pension payment of $261.1 million in Fiscal Year 2017) for Fiscal Year 2017. The Water Utility Fund's proportionate share of the City's ADC to SDCERS was approximately 6.24% (equal to approximately $20.26 million or 4.1% of the Water System's Maintenance and Operation Costs, based on a City pension payment of $324.5 million) for Fiscal Year 2018 and projected to be approximately 5.0% (equal to approximately $16.21 million or 3.1% of the Water System's Maintenance and Operations Costs, based on a City pension payment of $322.9 million) for Fiscal Year 2019, as included in the Fiscal Year 2019 Adopted Budget.

SDCERS is a public employee retirement system established in Fiscal Year 1927 by the City. SDCERS administers independent, qualified, single employer governmental defined benefit plans and trusts for the City, the San Diego Unified Port District (the "Port") and the San Diego County Regional Airport Authority (the "Airport"). The assets of the three separate plans and trusts are pooled in the SDCERS Group Trust for investment purposes. These plans are administered by the SDCERS Board to provide retirement, disability, death and survivor benefits for its members. Amendments to the City's benefit provisions require City Council approval and amendments to retirement benefits require a majority vote by those SDCERS members who are also eligible City employees or retirees. Benefit increases also require a majority vote of the public. All approved benefit changes are codified in the City's Municipal Code. The plans cover all eligible employees of the City, the Port, and the Airport. All City employees initially hired before July 20, 2012 working half-time or greater, all sworn police officers of the City irrespective of hire date, and full-time employees of the Port and the Airport are eligible for membership and are required to join SDCERS.

As of July 20, 2012, SDCERS is closed to new City employees, except for the Police plan, which will remain open. SDCERS is considered part of the City's financial reporting entity and is included in the City's CAFR as a pension trust fund. See Note 12, "Pension Plans," in the City's Fiscal Year 2017 CAFR and the City's Fiscal Year 2018 CAFR. SDCERS also prepares its own Comprehensive Annual Financial Report, the most recent of which is for Fiscal Year 2018.

The amounts and percentages set forth under this caption relating to SDCERS, including, for example, actuarial accrued liabilities and funded ratios, are based upon numerous demographic and economic assumptions, including investment return rates, inflation rates, salary increase rates, cost of living adjustments, postemployment mortality, active member mortality, and rates of retirement. Prospective purchasers of the 2018 Bonds are cautioned to review and carefully assess the reasonableness of the assumptions set forth in this Official Statement and in the documents that are cited as the sources for the information under this caption. In addition, the prospective purchasers of the 2018 Bonds are cautioned that such sources and the underlying assumptions speak as of their respective dates, and are subject to change. Prospective purchasers of the 2018 Bonds should also be aware that some of the information presented under this caption contains forward-looking statements and the actual results of the pension system may differ materially from the information presented herein.

The information disclosed herein relates solely to the City's participation in SDCERS and not to the participation of the Airport or the Port. City employment classes participating in the City's defined benefit plan are elected officers, general employees and safety employees (including police, fire and lifeguard members). These classes are represented by various unions depending on the type and nature of work performed, except for elected officials, unclassified and unrepresented employees.

TABLE 25
CITY OF SAN DIEGO PLAN MEMBERSHIP
As of June 30, 2018

	General	Safety	Total by Classification
Active Members	3,899	2,068	5,967
Inactive Members	2,276	645	2,921
Retirees	5,426	3,470	8,896
DROP Participants[(1)]	757	371	1,128
Total Members	12,358	6,554	18,912

(1) Participants in the Deferred Retirement Option Plan ("DROP") no longer accrue service credits and do not make contributions to SDCERS. They continue to work for the City and contribute 3.05% of their salary, with an employer match, into a personal DROP account. Their service retirement benefit is also deposited into their DROP account and they must retire within five years of entering DROP. Employees hired after June 30, 2005 are ineligible for DROP.

Source: SDCERS Comprehensive Annual Financial Report for Fiscal Year 2018.

The City is required to make contributions to the pension system as determined by the SDCERS Board. Pension contributions are authorized and appropriated annually in accordance with the adoption of the City's annual budget. The City's ADC is calculated by the SDCERS' actuary, Cheiron, Inc. ("Cheiron") and approved by the SDCERS Board. Cheiron conducts an actuarial analysis for SDCERS annually, the most recent of which is the June 30, 2017 Annual Actuarial Valuation of SDCERS, dated December 22, 2017 (the "2017 Actuarial Valuation"). The 2017 Actuarial Valuation serves as the basis for the City's pension contribution for Fiscal Year 2019. The City's actual annual pension contribution may differ from the ADC based on a number of factors discussed below, but the pension contribution is not expected to be less than the ADC in any Fiscal Year.

Actuarial Assumptions. The following are the principal actuarial assumptions used by Cheiron in preparing the 2017 Actuarial Valuation. The actuarial assumptions reflect recommendations approved by the SDCERS Board in September 2017.

1. Investment Return Rate: 6.75% net of investment expenses. The assumption is scheduled to decline to 6.50% in the actuarial valuation at June 30, 2018.

2. Inflation Rate: 3.05% per year, compounded annually.

3. Administrative Expense Assumption: Administrative expenses are assumed to be $11.8 million for Fiscal Year 2018 (assuming payment at the beginning of the fiscal year, increasing by 2.50% annually).

4. Interest Credited to Member Contributions: 6.75% compounded annually.

5. Projected Salary Increases Due to Inflation: 0% in Fiscal Years 2013-2018, 3.05% thereafter, with additional merit salary increases of 0.50% to 8.00% based on a participant's years of service and membership group.

6. Cost-of-Living Adjustments: 1.90% per year, compounded annually.

7. Additional Assumptions: Additional assumptions regarding the following were used: cost of living annuity benefit, member refunds of contributions, rates of separation from

active membership, rates of disability, post-retirement mortality, disability mortality, active member mortality, family composition, rates of retirement, spousal continuances, deferred member benefits, and DROP.

Net Pension Liability. Governmental Accounting Standards Board ("GASB") accounting standards require that the City record, in its Statement of Net Position, the Net Pension Liability ("NPL") related to defined benefit retirement plans offered to City employees. The NPL represents the difference between the Total Pension Liability and the fair value of pension assets. An NPL of $2.522 billion is included in the City's CAFR for the Fiscal Year ending June 30, 2018. See Table 27 for the Water Utility Fund's share of the ADC from Fiscal Years 2015 through 2019.

The measurement of the NPL for Fiscal Year 2017 used a long-term expected rate of return of plan investments of 6.75% (the "Discount Rate"). A change in the assumed Discount Rate would have a significant effect on the measurement of the NPL. For Fiscal Year 2017, a 1% decrease in the assumed Discount Rate to 5.75% would increase the NPL by $1.133 billion, or 44.9%; and a 1% increase in the assumed Discount Rate to 7.75% would decrease the NPL by $933 million, or 37%. The Water Utility Fund's share of the NPL is $160 million.

Funding Status. According to the 2017 Actuarial Valuation, at June 30, 2017, the City had a Unfunded Actuarial Liability ("UAL") of $2.757 billion and a funded ratio based on the actuarial value of assets of 71.2%. The UAL increased by $199.6 million over the UAL set forth in the Actuarial Valuation at June 30, 2016 ("2016 Actuarial Valuation"), which was $2.557 billion, and the funded ratio decreased by 0.4%. The UAL in the 2017 Actuarial Valuation was expected to increase by $6.3 million compared to the UAL in the 2016 Actuarial Valuation. The larger than expected increase was primarily driven by the change to the discount rate assumption ($254.0 million). Net asset experience was favorable, decreasing the UAL by $100.5 million. There was a relatively small liability experience loss of $39.9 million, primarily due to salary (promotional increases greater than expected).

The following table sets forth the City's portion of SDCERS historical funding progress for Fiscal Years 2008 through 2017. Additionally, see Note 12, "Pension Plans," in the City's Fiscal Year 2017 CAFR and the City's Fiscal Year 2018 CAFR.

TABLE 26
CITY OF SAN DIEGO
SCHEDULE OF FUNDING PROGRESS
Fiscal Years 2008 through 2017
($ Amounts in Thousands)
(Unaudited)

Valuation Date (June 30)	Actuarial Value of Assets (A)	Market Value of Assets (B)	AL (C)	Funded Ratio (Actuarial)	Funded Ratio (Market)	UAL (Actuarial) (C) – (A)	AL Less Market Value of Assets (C) – (B)	Covered Payroll[(1)]	UAL to Covered Payroll
2008	$ 4,660,346	$ 4,408,719	$ 5,963,549	78.1%	73.9%	$ 1,303,203	$ 1,554,830	$ 535,774	243.2%
2009	4,175,229	3,479,357	6,281,636	66.5	55.4	2,106,408	2,802,279	536,591	392.6
2010	4,382,047	3,900,537	6,527,224	67.1	59.8	2,145,177	2,626,687	530,238	404.6
2011	4,739,399	4,848,054	6,917,175	68.5	70.1	2,177,776	2,069,121	514,265	423.5
2012	4,982,442	4,799,827	7,261,731	68.6	66.1	2,279,289	2,461,904	511,091	446.0
2013	5,317,778	5,395,158	7,555,527	70.4	71.4	2,237,749	2,160,369	499,463	448.0
2014	5,828,594	6,292,855	7,858,703	74.2	80.1	2,030,110	1,565,848	480,536	422.5
2015	6,204,244	6,387,829	8,205,953	75.6	77.8	2,001,709	1,818,124	480,662	416.4
2016	6,455,378	6,307,412	9,013,130	71.6	70.0	2,557,752	2,705,718	465,100	549.9
2017	6,808,418	7,000,220	9,565,802	71.2	73.2	2,757,384	2,565,582	448,890	614.3

(1) Covered payroll includes all elements of compensation paid to active City employees (who are in the SDCERS defined benefit plan) on which contributions to the pension plan are based.

Source: SDCERS Comprehensive Annual Financial Reports (Valuation Dates 2008-2016) and Cheiron Actuarial Valuation Reports (Valuation Dates 2008-2017) for Actuarial Value of Assets, Market Value of Assets, AL, Funded Ratio (Actuarial), Funded Ratio (Market) (2011-2017), UAL (Actuarial), AL Less Market Value of Assets (2014-2017), Covered Payroll and UAL to Covered Payroll (2008-2016). Department of Finance, City of San Diego for Funded Ratio (Market) (2008-2010), AL Less Market Value of Assets (2008-2013), and UAL to Covered Payroll (2017).

City and Water System Pension Contributions. The following table sets forth the City's ADC and pension contributions, the Water System's share of payments for Fiscal Years 2015 through 2018 and the budgeted and projected amounts for Fiscal Year 2019. Preservation of Benefits ("POB") Plan contributions are made on a monthly basis as payments are owed to beneficiaries. The City does not pay any portion of employee pension contributions.

TABLE 27
CITY OF SAN DIEGO AND WATER UTILITY FUND
PENSION CONTRIBUTION
Fiscal Years 2015 through 2019
($ Amounts in Thousands)
(Unaudited)

Fiscal Year	Pension Plan ADC[1]	POB Plan ARC	Total Plan ADC/ARC[2]	Pension Plan Contribution	POB Plan Contribution	Total Pension Contribution[3]	Water System Contribution[4]	Water System Operating Expenses[5]	Water System Contribution (% of O&M)
2015	$263,600	$876	$264,476	$263,600	$1,399	$264,999	$16,907	$429,657	3.9%
2016	254,900	842	255,742	254,900	1,595	256,495	16,297	415,820	3.9
2017	261,100	--	--	261,100	1,633	262,733	17,049	458,343	3.7
2018	324,500	--	--	324,500	1,430	325,840	20,257	490,438	4.1
2019	322,900	--	--	322,900	1,500	324,400	16,208	525,369	3.1

(1) ADC replaced the Annual Required Contribution ("ARC") starting in Fiscal Year 2015.

(2) See Note 12 in City's Fiscal Year 2017 CAFR and the City's Fiscal Year 2018 CAFR for more information on the POB Plan. Pursuant to IRS guidelines, the City may not pre-fund the POB Plan and POB Plan contributions are in addition to the Pension Plan ADC. As of Fiscal Year 2017, the SDCERS actuary does not calculate a POB Plan ADC, accordingly, an updated POB Plan ADC and Total Plan ADC is not available.

(3) Comprised of the pension plan contribution and the POB Plan contribution; may not sum due to rounding.

(4) In Fiscal Year 2016, the Water System contributed $1.5 million to the Pension Stabilization Reserve in addition to the $16.3 million Water System Contribution to the ADC. In Fiscal Year 2019, the Water System is budgeted to contribute $378,546 to the Pension Stabilization Reserve in addition to the $16.2 million Water System Contribution to the ADC.

(5) Water System Operating Expense amount is based on Fiscal Year 2019 Adopted Budget and includes depreciation based on beginning Fiscal Year 2019 fixed asset inventory. Actuals may vary compared to budgeted amounts.

Source: SDCERS Comprehensive Annual Financial Reports for Pension Plan ADC (2015-2017) and Pension Plan Contribution (2015-2017). Comprehensive Annual Financial Report, Department of Finance, City of San Diego for POB Plan ARC (2015-2016) and POB Plan Contribution (2015-2018). Public Utilities Department, City of San Diego for Water System Contribution as a percent of O&M (2015-2017). Department of Finance, City of San Diego for Pension Plan ADC (2018-2019), Total Plan ADC/ARC, Pension Plan Contribution (2018-2019), POB Plan Contribution (2019), Total Pension Contribution, Water System Contribution (2015-2019), and Water System Contribution as a Percent of O&M (2018-2019).

Proposition B. Proposition B (Pension Reform) ("Proposition B") was approved by voters on June 5, 2012 and implemented by the City in Fiscal Year 2013. Generally, the measure amends the City Charter to provide all new City employees hired on or after July 20, 2012, except sworn police officers, with a 401(a) defined contribution plan instead of a defined benefit plan. The initiative contains other provisions intended to limit pension costs for existing employees by directing the City to seek, through labor negotiations, to limit City employees' compensation used to calculate pension benefits.

On February 11, 2013, a California Public Employment Relations Board ("PERB") administrative law judge ("ALJ") issued a proposed decision finding that the City violated state labor laws by failing to meet and confer with City labor organizations prior to placing Proposition B on the ballot. The City filed exceptions to the proposed decision. On December 29, 2015, PERB issued Decision No. 2464-M (the "PERB Order"), which affirmed and adopted the ALJ's proposed decision with minor modifications. On January 25, 2016, the City filed an appeal with the Fourth District Court of Appeal. On April 11, 2017, the Court of Appeal overturned the ruling by the PERB. On July 26, 2017, the California Supreme Court granted petitions for review filed by both PERB and the labor organizations and held oral arguments in the case on May 29, 2018.

On August 2, 2018, the California Supreme Court overturned the Court of Appeal's decision, finding that the City failed to meet and confer with City labor unions prior to placing Proposition B on the ballot in June 2012. The Supreme Court did not invalidate Proposition B. The Supreme Court remanded the PERB case to the Court of Appeal for further proceedings to consider the appropriate judicial remedy. It is possible that the Court of Appeal will uphold the PERB order issued in 2015 which, in part, required the City to make employees whole for pension benefits lost, offset by the value of new benefits provided to them under Proposition B. Based on the City's preliminary analysis and the actuarial work performed by SDCERS'

Actuary, the City believes that the benefits provided under Proposition B and the pension benefits the affected employees, including employees whose pension benefits are paid from amounts in the Water Utility Fund, would have otherwise received under the City's defined benefit plan have comparable values. Accordingly, the potential cost to the City as relates to the make-whole provision in the PERB order is immaterial. However, PERB did not clearly define how the value of these respective benefits should be calculated. Thus, under the PERB Order, the City is required to negotiate with the labor unions the terms under which affected employees will be made whole. A further consideration in implementing any "make-whole remedy" is compliance with federal tax laws and regulations, which may also restrict the remedies available. In early- to mid-December 2018, the City will be filing a petition for certiorari with the United States Supreme Court seeking review of the Court of Appeal's decision.

Postemployment Healthcare Benefits – Water Utility Fund Contribution

General. The City provides retiree healthcare benefits, also known as other post-employment benefits ("OPEB"), to certain health-eligible retirees and employees who were initially hired prior to July 1, 2005. As a result of a 15-year memorandum of understanding regarding post-employment healthcare benefits ("PEHB MOU") with the City's recognized employee organizations, there are two retiree healthcare plans: a defined benefit OPEB plan ("DB OPEB Plan") and a defined contribution plan ("DC Plan"). See Note 13, "Other Postemployment Benefits," in the City's Fiscal Year 2017 CAFR and the City's Fiscal Year 2018 CAFR for information regarding the City's OPEB plans.

Citywide and Water Utility Fund OPEB Contributions. Pursuant to the PEHB MOU, the City's total retiree healthcare annual contribution ("MOU Contribution") was $62.2 million for Fiscal Year 2018, distributed among the City's pay-go contribution to the DB OPEB Plan ("DB OPEB Pay-go") and its contribution to the DC Plan. The PEHB MOU also requires that certain employees contribute towards the DB OPEB Plan to fund a portion of the DB OPEB Pay-go ("Employee Contributions"). The terms of the PEHB MOU may be renegotiated with a two-thirds vote of the City Council. As of the date of this Official Statement, there are no discussions ongoing to renegotiate the level of funding for the MOU Contribution. The City's net OPEB obligation as of June 30, 2017 was $276.9 million.

The City's annual payment for the DB OPEB Plan and the DC Plan are made on a pay-go basis. For the last five fiscal years, the Water Fund retiree health contribution has been less than $5.0 million annually, which has represented approximately 1.00% of the Water Fund's maintenance and operation expenses.

Net OPEB Liability. GASB accounting standards require that the City record, in its Statement of Net Position, the Net OPEB Liability related to OPEB offered to City employees. The Net OPEB Liability represents the difference between the total OPEB liability and the fair value of OPEB assets. A Net OPEB Liability of $550.4 million is included in the City's CAFR for the Fiscal Year ending June 30, 2018. The measurement of the Net OPEB Liability for Fiscal Year 2017 used a Discount Rate of 6.73%. For Fiscal Year 2017, a 1% decrease in the assumed Discount Rate to 5.73% would increase the Net OPEB Liability by $71.3 million; and a 1% increase in the assumed Discount Rate to 7.73% would decrease the Net OPEB Liability by $60.4 million. The Water Utility Fund's share of the Net OPEB Liability is $42 million.

RISK FACTORS

Investment in the 2018 Bonds involves risks that may not be appropriate for certain investors. The following is a discussion of certain risk factors that should be considered, in addition to other matters set forth herein, in evaluating the 2018 Bonds for investment. The information set forth below does not purport to be an exhaustive listing of the risks and other considerations that may be relevant

to an investment in the 2018 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

Limited Obligations

The obligation of the City to pay the 2018 Subordinated Installment Payments securing the 2018 Bonds is a limited obligation of the City and is not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net System Revenues payable on a basis that is subordinate to the right of payment by the City of its Outstanding Senior Obligations under the Master Installment Purchase Agreement. The obligation of the City to make the 2018 Subordinated Installment Payments does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The City is obligated under the 2018 Supplement to make the 2018 Subordinated Installment Payments solely from Net System Revenues payable Net System Revenues on a basis that is subordinate to the right of payment by the City of its Outstanding Senior Obligations under the Master Installment Purchase Agreement.

No assurance can be made that Net System Revenues, estimated or otherwise, will be realized by the City in amounts sufficient to pay the 2018 Subordinated Installment Payments. Among other matters, drought, general and local economic conditions, and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of Net System Revenues realized by the City. In addition, the realization of future Net System Revenues is subject to, among other things, the capabilities of management of the City, the ability of the City to provide water to its customers, and the ability of the City to meet its covenant to fix, prescribe, and collect rates and charges for the Water Service in amounts sufficient to timely pay the 2018 Subordinated Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of or interest on the 2018 Bonds. The City has covenanted in the Master Installment Purchase Agreement to fix, prescribe, and collect rates and charges for the Water Service which will be at least sufficient to yield the greater of (i) Net System Revenues (as defined herein) sufficient to pay during each Fiscal Year all Obligations payable in such Fiscal Year, or (ii) Adjusted Net System Revenues during each Fiscal Year equal to 120% of the Adjusted Debt Service for such Fiscal Year. Adjusted Debt Service does not include debt service on Subordinated Obligations, such as the 2018 Subordinated Installment Payments. See "WATER SYSTEM FINANCIAL OPERATIONS – Establishment of Water Service Charges."

The 2018 Bonds are limited obligations of the Authority payable solely from and secured solely by the Subordinated Revenues pledged therefor and amounts on deposit in the Subordinated Bonds Payment Fund established under the Indenture. Funds for the payment of the principal of and the interest on the 2018 Bonds are derived solely from the 2018 Subordinated Installment Payments. The Authority has no other source of revenues from which to pay debt service on the 2018 Bonds. The Authority has no taxing power.

Subordinated Obligations

The 2018 Bonds are limited obligations of the Authority payable solely from and secured by the 2018 Subordinated Installment Payments to be received by the Authority and from the amounts on deposit in certain funds held under the Indenture. The 2018 Subordinated Installment Payments are payable from Net System Revenues on a basis that is subordinate to the right of payment by the City of its Outstanding Senior Obligations under the Master Installment Purchase Agreement. In the event of a default under the Indenture, the owners of the Senior Obligations have, in certain circumstances, the right to accelerate the entire principal amount of the Senior Obligations. See "Acceleration; Limitations on Remedies" below. In such circumstances, owners of the 2018 Bonds may not receive scheduled payments of principal of and interest on the 2018 Bonds until all holders of Senior Obligations have been

paid in full. Further, as concerns the Rate Covenant under the Indenture, Adjusted Debt Service does not include debt service on Subordinated Obligations such as the 2018 Subordinated Installment Payments. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS" and "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Water System Expenses, Collections, and Future Rates

The maintenance and operation expenditures related to the Water System are expected to increase in the next five years. See "WATER SYSTEM FINANCIAL OPERATIONS – Financial Projections and Modeling Assumptions." However, there can be no assurance that the City's projected future Maintenance and Operation Costs of the Water System will actually be as projected by the Department and described in this Official Statement. In addition, demands on the Water System are expected to increase due to population growth and regulatory requirements in the future. As described herein, the City is in the process of implementing the Long-Range Water Resources Plan and the attendant CIP to provide a framework for meeting future water requirements. Increases in expenses could require a significant increase in rates or charges in order to pay for CIP projects, including those anticipated under the City's Long-Range Water Resources Plan, the Pure Water Program, and to pay the debt service on account of any Obligation senior to or on parity with the Subordinated Installment Payments including, without limitation, the 2018 Subordinated Installment Payments securing the 2018 Bonds. Also, any such rate increases could increase the likelihood of nonpayment by purchasers of water from the City and could also decrease demand from such purchasers and may impact the City's ability to make the 2018 Subordinated Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of and interest on the 2018 Bonds as and when due.

Rates for Fiscal Year 2021 and beyond are not part of the 2016 Rate Case. Related CIP expenditures are rate dependent, including, particularly, Pure Water Program expenditures for the Water Utility Fund. The City anticipates that additional rate capacity is necessary after Fiscal Year 2020. The City expects to perform cost of service analysis to prepare a new rate case for recommended rate adjustments for the Water Utility Fund for Fiscal Year 2021 and later Fiscal Years.

Water System CIP Projects; Pure Water Program

The Water System CIP is a large component of the operations and maintenance of the Water System. The components of the Water System CIP described in this Official Statement are based upon preliminary estimates by the Department, as are projected schedules for the completion of project components, plans and designs, construction costs, and funding sources. Among other things, steel tariffs could adversely impact the construction costs of several components of the Water System CIP, although any such impacts have not been experienced by the City to date. Actual results of the Water System CIP and the projects undertaken thereunder are subject to adjustment and may vary, and costs may be higher or lower than such estimates. See "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Description of Major Projects" and Table 11 under that heading.

The largest portion of the Water System CIP, in terms of cost and scope, is the Pure Water Program. Completion of the Pure Water Program includes certain assumptions (which the Department considers to be reasonable), and Department goals to (a) pursue all options in order to get regulatory certainty that the Pure Water Program will suffice to offset the requirement to move up to secondary treatment and (b) continue outreach efforts to promote the Pure Water Program to all communities within the San Diego region. In the event the costs of the first phase of the Pure Water Program exceed the Department's original estimates, delays or unforeseen obstacles are faced, additional capital contributions may be necessary in order to pay for the total costs of Phase 1 of the Pure Water Program. The exact amount of any such additional capital contributions will depend upon (a) the actual costs of the first phase

of the Pure Water Program incurred to date where costs and funding are different than anticipated, (b) any unanticipated additional costs of the first phase of the Pure Water Program needed to complete the first phase of the Pure Water Program, (c) approval of a rate case to address future capital program costs in Fiscal Years 2021 and later Fiscal Years, and (d) whether any bonds, loans or grants will differ from projected to finance costs of the first phase of the Pure Water Program. Capital costs associated with Phase 1 of the Pure Water Program are approximately $1.477 billion, of which approximately $865 million is allocated to the Water Utility Fund and approximately $612 million is allocated to the Sewer Revenue Fund. The amounts allocated to the Water Utility Fund and the Sewer Revenue Fund are based upon engineering studies and treatment processes. As with each component of the Water System CIP, the achievement of projected results, completion, and other expectations involves known and unknown risks, uncertainties, and other factors that may hinder the Department's ability to meet the CIP schedule set forth herein. See "WATER SUPPLY – Pure Water Program" and "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM" for additional information on the Pure Water Program.

Water System Demand

There can be no assurance that the local demand for the services provided by the Water System will be maintained at levels described in this Official Statement. Because of changes in demographics within the boundaries of the City, it is possible for the demand for water services to decline over the term of the 2018 Bonds. A significant decline in demand might create a situation in which the City could not increase rates sufficiently to offset the decrease in subscribers or usage. This would reduce the City's ability to make the 2018 Subordinated Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of and interest on the 2018 Bonds as and when due.

Rate-Setting Process Under Proposition 218

Proposition 218, which added Articles XIIIC and XIIID to the State Constitution, affects the City's ability to impose future rate increases and no assurance can be given that future rate increases will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. In the event that future proposed rate increases cannot be imposed as a result of majority protest or initiative, the City might thereafter be unable to generate Net System Revenues in the amounts required by the 2018 Supplement to pay the 2018 Subordinated Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of and interest on the 2018 Bonds. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIIIC" and "– Article XIIID."

Notwithstanding the foregoing, the City has covenanted to fix, prescribe, and collect rates and charges for Water Service at a level at least sufficient to meet its debt requirements for Senior Bonds, as set forth under "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – Rate Covenant," and to use its best efforts to effect Water Service rate increases in compliance with Proposition 218. The current water rates approved by the City Council have been imposed in compliance with Proposition 218. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIIIC" and "– Article XIIID."

Statutory and Regulatory Compliance

The Water System is subject to a variety of federal and State statutory and regulatory requirements. Laws and regulations governing treatment and delivery of water are enacted and promulgated by federal, state and local government agencies. Compliance with these laws and regulations is and will continue to be costly and, as more stringent standards are developed to ensure safe drinking water standards and the provision of water for other purposes, such costs will likely increase.

The City's failure to comply with applicable laws and regulations could result in significant fines and penalties. Such claims are payable from assets of the Water System or from other legally available sources. In addition to claims by private parties, changes in the scope and standards for public agency water systems such as that operated by the Department may also lead to administrative orders issued by federal or State regulators. Future compliance with such orders can also impose substantial additional costs on the Water Utility Fund. No assurance can be given that the cost of compliance with such laws, regulations, and orders would not adversely affect the ability of the Water System to generate Net System Revenues sufficient to pay the debt service on account of any Obligation senior to or on parity with the 2018 Subordinated Installment Payments including, without limitation, the 2018 Subordinated Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of and interest on the 2018 Bonds. See "WATER SUPPLY – Water System Regulatory Requirements."

The City has covenanted in the Master Installment Purchase Agreement to fix, prescribe, and collect rates and charges for the Water Service which will be at least sufficient to yield the greater of (i) Net System Revenues (as defined herein) sufficient to pay during each Fiscal Year all Obligations payable in such Fiscal Year, or (ii) Adjusted Net System Revenues during each Fiscal Year equal to 120% of the Adjusted Debt Service for such Fiscal Year. Adjusted Debt Service does not include debt service on Subordinated Obligations, such as the 2018 Subordinated Installment Payments. See "WATER SYSTEM FINANCIAL OPERATIONS – Establishment of Water Service Charges." No assurance can be given that the cost of compliance with such laws and regulations will not materially adversely affect the ability of the Water System to generate Net System Revenues sufficient to pay the 2018 Subordinated Installment Payments.

Risks Relating to the Water Supply

General. There are a variety of factors that can adversely affect the supply of water available to MWD, CWA and the City. See "WATER SUPPLY." Further, among other factors affecting demand, water use is affected by economic conditions. Economic recession and its associated impacts such as job losses, income losses, and housing foreclosures or vacancies affect aggregate levels of water use and the City's water sales. Among other matters, water supply and demand, general and southern California economic conditions and changes in law and government regulations could adversely affect the amount of operating revenues that the Department receives.

Drought Risks. The ability of the Water System to operate effectively can be affected by the water supply available to the City, which is situated in an arid and semi-desert environment. If the water supply decreases significantly, whether by operation of mandatory supply restrictions, prohibitively high water costs or otherwise, Water System sales will diminish and Net System Revenues available to pay the 2018 Subordinated Installment Payments may be adversely affected. Suppliers of water to the City, including CWA and MWD, have planned and managed reserve supplies to account for normal occurrences of drought conditions. See "WATER SUPPLY."

Earthquakes, Wildfires, and Other Natural Disasters. Although the City has not experienced any significant damage from seismic activities, the geographic area in which the City is located is subject to unpredictable seismic activity. Southern California is characterized by a number of geotechnical conditions that represent potential safety hazards, including expansive soils and areas of potential liquefaction and landslide. The San Andreas, Rose Canyon, Elsinore, and San Jacinto fault zones are all capable of producing earthquakes in the San Diego area and beyond. Water conveyance and distribution facilities maintained by DWR, MWD and CWA are all subject to the risk of earthquakes and other natural disasters which could interrupt deliveries to the Water System. Earthquakes or other natural disasters could interrupt operation of the Water System or that of its suppliers and thereby interrupt the ability of the City to realize Net System Revenues sufficient to pay the 2018 Subordinated Installment Payments

securing the payment of principal of and interest on the 2018 Bonds. In anticipation of such potential disasters, the City designs and constructs all facilities of the Water System to the seismic codes in effect at the time of design of the project. The Water System has not experienced any significant losses of facilities or services as a result of earthquakes.

Water conveyance facilities generally consist of pipelines and connections, flow control facilities, and pumping stations, which are not typically vulnerable to damage by wildfires. The above ground facilities within the Water System are designed to be tolerant to damage by wildfires through the use of fire resistant material where possible, such as concrete and masonry blocks. In addition, the Department works closely with the City's fire department to ensure that proper vegetative clearances are maintained in and around the properties and facilities of the Water System. The Department watches for wildfires that may threaten the facilities of the Water System and operations and maintenance crews are dispatched to ensure that all above-ground facilities remain safe and operational. Further, during fires, the Department works closely with the City's fire department and law enforcement officers to monitor and protect facilities of the Water System to ensure continuous operation.

As described under the caption "WATER SYSTEM SERVICE AREA AND FACILITIES – Existing Water System Facilities – Raw Water Reservoirs," the City is also cooperating with CWA on the Emergency Storage Project, pursuant to which a system of reservoirs, interconnected pipelines and pumping stations is being created to improve the availability of water to the San Diego region in the event of an interruption in imported water deliveries. Currently, the pipelines that carry imported water for CWA, a portion of which is purchased by the Department, extend for hundreds of miles and cross several major fault lines along the to the County. A severe earthquake, drought or other significant disaster could cut off the County's imported water supply for up to six months.

Although the City has implemented disaster preparedness plans and made improvements to Water System facilities in connection with such natural disasters, there can be no assurance that these or any additional measures will be adequate in the event that a natural disaster occurs, nor that costs of preparedness measures will be as currently anticipated. Further, damage to components of the Water System could cause a material increase in costs for repairs or a corresponding material adverse impact on Net System Revenues. **The City is not obligated under the Master Installment Purchase Agreement to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Water System.**

Environmental Considerations. Several fish species and other wildlife species either directly or indirectly have the potential to affect SWP and Colorado River operations as well as CWA and MWD supplies and facilities. See "WATER SUPPLY."

Security of the Water System. Military conflicts and terrorist activities may adversely impact the operations and finances of the Water System. The Department continually plans and prepares for emergency situations and immediately responds to ensure the quality and service of water is maintained. The Department prepares for emergencies such as earthquake, fire, power failure, or possible water contamination in a variety of ways, including: extensively monitoring the entire water treatment and distribution system on a routine basis throughout the year, in part by taking thousands of water samples; routinely training staff on critical security and safety; conducting disaster drills to improve coordination efforts throughout the region; collaborating with the DDW, law enforcement and fire-rescue agencies in order to improve multiple agency response to water emergencies; implementing a water quality notification plan to keep customers informed in emergency situations; and implementing additional security measures at all water treatment plants, reservoirs, and other local and remote water facilities. However, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that terrorist activities are directed against the Water System or that costs of

security measures will not be greater than presently anticipated. Further, damage to certain components of the Water System could require the City to increase expenditures for repairs to the Water System significantly enough to adversely impact the City's ability to make the 2018 Subordinated Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of and interest on the 2018 Bonds. The Water System CIP has made use of and will continue to pursue additional use of Homeland Security grants to enhance security of various facilities throughout the Water System. In addition, the City has established the Operating Reserve, which is currently funded at a minimum 70 days of operating costs which may be used under certain circumstances for repairs to the Water System. See "WATER SYSTEM FINANCIAL OPERATIONS – Rate Stabilization Fund; Other Funds and Accounts."

Suppliers of water to the City have also taken actions to increase the security of water from the CRA and the SWP. MWD conducts ground and air patrols of the CRA and monitoring and testing at all treatment plants and along the CRA. Similarly, DWR has in place security measures to protect critical facilities of the SWP, including both ground and air patrols of the SWP. Although MWD has constructed redundant systems and other safeguards to ensure its ability to continually deliver water to its customers, and DWR has made similar efforts, a terrorist attack or other security breach against water facilities could materially impair MWD's ability to deliver water to its member agencies, including CWA, from which the Department purchases a substantial portion of its water supplies, through the CRA or the SWP, or that costs of security measures will not be greater than presently anticipated, which could adversely impact the City's ability to pay the 2018 Subordinated Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of and interest on the 2018 Bonds.

The safety of the facilities of the Water System is maintained via a combination of regular inspections by City employees, electronic monitoring, and analysis of unusual incident reports. All critical above-ground facilities operated and maintained by the City are controlled access facilities with fencing, gates, closed circuit television systems and security officers at certain points. Critical facilities additionally include monitored closed circuit television systems. Security services are provided at facilities, and this service was recently renewed through a contract awarded in July 2018 for five years, which will continue the consistent and reliable security guard services at Water System Facilities. Smaller, above ground and subterranean pumping stations operated and maintained by the City are locked with padlock or internal locking mechanisms, and most are monitored via access/intrusion alarms. Security improvements are evaluated on an ongoing basis. The electronic operations and controls have been evaluated and exposure reduced through a series of technology systems enhancements and integration.

Utility Costs. Power outages may cause difficulties in receiving an adequate water supply and thus increase the cost of water. No assurance can be given that any future significant reduction or loss of power would not materially adversely affect the operations of the Water System. Also, the Department cannot guarantee that prices for electricity or gas will not increase, which could adversely affect the Water System's financial condition, although the rate increases previously approved by the City for Fiscal Years 2016 through 2020 allow for 9% annual inflation in gas and electric costs. The Department also cannot guarantee that additional increases in water rates charged by CWA, the City's wholesale provider, or other charges imposed by CWA or MWD will not be proposed. Costs for electric power required for operating the pumping systems of CWA, and MWD for CRA and the State Water Project, are a substantial part of their respective expenses. Such increases in water rates and such other charges as well as increases in electricity and gas costs are eligible to be "passed through" to the City's water customers as increased water rates in accordance with the City's Municipal Code. Such "pass-through" rate increases are subject to Proposition 218 notice requirements. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIIIC" and "– Article XIIID."

Acceleration; Limitations on Remedies

The Indenture provides that, upon and during the continuance of an Event of Default thereunder, the Trustee may, subject to certain conditions, declare the principal of all Senior Bonds then Outstanding and the interest accrued thereon to be due and payable immediately. So long as any Senior Bonds remain outstanding under the Indenture, no Owners of Subordinated Bonds shall have the right to declare an Event of Default, to declare any Subordinated Bonds immediately due and payable or to direct the Trustee or waive any Event of Default. The foregoing notwithstanding, the remedy of acceleration is subject to the limitations on legal remedies against public entities in the State, including a limitation on enforcement obligations against funds needed to serve the public welfare and interest. Also, any remedies available to the Owners of the 2018 Bonds upon the occurrence of an Event of Default under the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

Further, enforceability of the rights and remedies of the Owners of the 2018 Bonds, and the obligations incurred by the City, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, receivership, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles that may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose, and the limitations on remedies against counties in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the 2018 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights. The opinions to be delivered by Bond Counsel, concurrently with the issuance of the 2018 Bonds, that the 2018 Bonds constitute valid and binding limited obligations of the City and the Indenture constitutes a valid and binding obligation of the City will be subject to such limitations and the various other legal opinions to be delivered concurrently with the issuance of the 2018 Bonds will be similarly qualified. See "APPENDIX B – FORM OF BOND COUNSEL OPINION."

If the City fails to comply with its covenants under the 2018 Supplement to pay the 2018 Subordinated Installment Payments, there can be no assurance of the availability of remedies adequate to protect the interests of the holders of Senior Bonds and, accordingly, the Subordinated Bonds.

Future Legislation

The City is subject to various laws, rules and regulations adopted by the local, State and federal governments and their agencies. The City is unable to predict the adoption or amendment of any such laws, rules or regulations, or their effect on the operations of the Water System or financial condition of the Water Utility Fund.

Potential Impact of Climatic Change

The issue of climate change has become an important factor in water resources planning in the State, and it is being considered during planning for water supplies and systems. Many studies cite evidence that increasing concentrations of greenhouse gases have caused and will continue to cause a rise in temperatures around the world, which will result in a wide range of changes in climate patterns. Moreover, these studies cite evidence that a warming trend occurred during the latter part of the 20th century and will likely continue through the 21st century. These changes could have a direct effect on

water resources in the State, and numerous studies on climate and water in the State have been conducted to determine the potential impacts. Based on these studies, global warming could result in the following types of water resources impacts in the State, including impacts on water supplies and systems:

- Sea level rise and an increase in saltwater intrusion,
- Changes in the timing, intensity, and variability of precipitation, and an increased amount of precipitation falling as rain instead of as snow,
- Reductions in the average annual snowpack due to a rise in the snowline and a shallower snowpack in the low- and medium-elevation zones, and a shift in snowmelt runoff to earlier in the year,
- Long-term changes in watershed vegetation and increased incidence of wildfires that could affect water quality,
- Increased water temperatures with accompanying adverse effects on some fisheries,
- Increases in evaporation and concomitant increased irrigation need, and
- Changes in urban and agricultural water demand.

However, other than the general trends listed above, there is no clear scientific consensus on exactly how global warming will quantitatively affect State water supplies, and current models of State water systems generally do not reflect the potential effects of global warming.

The Climate Change-Related Impacts in the San Diego Region by 2050 Report, released by California Climate Change Center in August 2009, suggested that due to global climate changes, the mean sea level ("MSL") in the year 2050 will rise by 1.5 feet. A review of historical tide data from the National Oceanic and Atmospheric Administration (NOAA) determined that the average high tide rise for the San Diego Region was 6.55 feet. The projected elevation of the 2050 high tide will be the current high tide elevation (6.55 feet) plus the projected rise in sea level by the year 2050 (1.5 feet), which makes the projected San Diego Region 2050 high tide elevation 8.05 feet above MSL. The City performed an analysis based on this information to determine the potential impact on the City's water and wastewater facilities. Based on the analysis, no water pump stations or treatment plants will be affected by this potential sea level change since these facilities are all situated at higher grounds. The City maintains and operates more than 3,300 miles of water lines; less than 22 miles of these water pipes may be impacted by the projected rise in sea level. The impacts on affected water pipes will be limited by the fact that the Water System is under high inner pressure.

Based on these preliminary studies and the results of literature reviews, the potential impacts of global warming on water supplies and systems are going to be limited through 2030. Water system operations may be impacted the most by the need to coordinate local surface and groundwater storage operations and developments with shifting imported water supply availability due to changes in the timing, intensity, and variability of precipitation, and an increased amount of precipitation falling as rain instead of as snow in the watersheds for imported water. City water resource specialists and engineers are involved in ongoing monitoring and research regarding climate change trends and will continue to monitor the changes and predictions, particularly as these changes relate to Water System operations and management of water supplies and systems.

Cybersecurity

The City relies on a complex technology environment to conduct its operations. As a recipient and provider of personal, private, and sensitive information, the City and its departments and offices face multiple cyber threats including, but not limited to, hacking, viruses, malware and other attacks on computers and other sensitive digital networks and systems.

The City's Information Security Office works to protect the City from cyber threats by adopting new technology and ensuring City systems and citizen data are protected. The City's Information Security Office focuses on three core components: an appropriate governance and policy structure; a robust and scalable security architecture and solutions; and an expansive and continuous security awareness program. The Information Security Office follows industry best practices, develops City-wide security policies, provides regular security training to all users and uses best-of-breed security tools to mitigate, prevent, deter and respond to incidents if and when they occur. Additionally, to identify potential vulnerabilities and proactively mitigate them, the City organizes weekly vulnerability scanning of critical systems, annual penetration tests of the information security environment, and regular internal testing of systems and users. These tests are performed by both the City's Information Security Office and contracted third parties.

The City's networking contractor provides secure network devices for the City's computer systems and the City has working relationships and meets regularly with security experts in Federal and state governments, commercial enterprises, academic institutions and law enforcement organizations. By virtue of these relationships, the City stays informed of cyber threats and effectively communicates with proper authorities regarding cyber risks and incidents.

No assurances can be given that the City's security and operational control measures will be successful in guarding against any and each cyber threat and attack. The results of any attack on the City's computer and information technology systems could impact its operations and damage the City's digital networks and systems, and the costs of remedying any such damage could be substantial.

Uncertainties of Projections, Forecasts and Assumptions

Compliance with certain of the covenants contained in the Indenture is based upon assumptions and projections including, but not limited to, those described under "WATER SYSTEM FINANCIAL OPERATIONS – Financial Projections and Modeling Assumptions." Projections and assumptions are inherently subject to significant uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur and actual results are likely to differ, perhaps materially, from those projected. Accordingly, such projections are not necessarily indicative of future performance, and the City assumes no responsibility for the accuracy of such projections. See also "INTRODUCTION – Forward-Looking Statements."

Absence of Market for the 2018 Bonds

There can be no guarantee that there will ever be a secondary market for purchase or sale of the 2018 Bonds or, if a secondary market exists, that the 2018 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Loss of Tax Exemption on 2018 Bonds

As discussed under the caption "TAX MATTERS," interest on the 2018 Bonds could become included in gross income for purposes of federal income taxation, retroactive to the date the 2018 Bonds were issued, as a result of future acts or omissions of the City or the Authority in violation of their respective covenants in the Indenture and the Master Installment Purchase Agreement.

Economic, Political, Social, and Environmental Conditions

Prospective investors are encouraged to evaluate current and prospective economic, political, social, and environmental conditions as part of an informed investment decision. Changes in economic, political, social, or environmental conditions on a local, state, federal, and/or international level may adversely affect investment risk generally. Such conditional changes may include (but are not limited to) fluctuations in business production, consumer prices, or financial markets, unemployment rates, technological advancements, shortages or surpluses in natural resources or energy supplies, changes in law, social unrest, fluctuations in the crime rate, political conflict, acts of war or terrorism, environmental damage, and natural disasters.

CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES

Article XIIIA

Article XIIIA of the State Constitution provides that the maximum *ad valorem* tax on real property cannot exceed 1% of the "full cash value," which is defined as "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment," subject to exceptions for certain circumstances of transfer or reconstruction and except with respect to certain voter approved debt. The "full cash value" is subject to annual adjustment to reflect increases, not to exceed 2% per year, or decreases in the consumer price index or comparable local data, or to reflect reduction in property value caused by damage, destruction or other factors.

Article XIIIA requires a vote of two-thirds of the qualified electorate to impose special taxes, while generally precluding the imposition of any additional *ad valorem*, sales or transaction tax on real property. As amended, Article XIIIA exempts from the 1% tax limitation any taxes above that level required to pay debt service on certain voter-approved general obligation bonds for the acquisition or improvement of real property. In addition, Article XIIIA requires the approval of two-thirds of all members of the State Legislature to change any State laws resulting in increased tax revenues.

Under California law, any fee that exceeds the reasonable cost of providing the service for which the fee is charged is a "special tax," which under Article XIIIA must be authorized by a two-thirds vote of the electorate. Under Article XIIID, fees and charges for water, sewer, and refuse collection services are subject to majority protest, but are not subject to the two-third vote requirement of Article XIIIA. The reasonable cost of providing water services has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements. In addition, the California courts have determined to date that fees such as capacity fees will not be special taxes if they approximate the reasonable cost of constructing the water or wastewater capital improvements contemplated by the local agency imposing the fee. See "WATER SYSTEM FINANCIAL OPERATIONS – Revenues."

Article XIIIB

Article XIIIB of the California Constitution limits the annual appropriations of proceeds of taxes by State and local government entities to the amount of appropriations of the entity for the prior fiscal year, as adjusted for changes in the cost of living, changes in population, and changes in services rendered by the entity. User fees and charges are considered proceeds of taxes only to the extent they exceed the reasonable costs incurred by a governmental entity in supplying the goods and services for which such fees and charges are imposed.

To the extent that assessments, fees, and charges collected by the City are used to pay the costs of maintaining and operating the Water System and payments due on the Senior Bonds and the Subordinated Bonds, and including the funding of the Reserve Fund established for the Senior Bonds to the applicable Reserve Fund Requirement and the Common Subordinated Bonds Reserve Fund with respect to the 2012A Bonds to the Common Subordinated Bonds Reserve Requirement, and the funding of the debt service reserve fund established for each SRF loan to its required level, the City believes as of the date hereof that such moneys should not be subject to the annual appropriations limit of Article XIIIB.

Article XIIIC

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative, entitled the "Right to Vote on Taxes Act" ("Proposition 218"). Proposition 218 added Articles XIIIC and XIIID to the California Constitution and contained a number of interrelated provisions affecting the ability of local governments, including the City, to levy and collect both existing and future taxes, assessments, fees, and charges.

Section 1 of Article XIIIC requires majority voter approval for the imposition, extension, or increase of general taxes and Section 2 thereof requires two-thirds voter approval for the imposition, extension, or increase of special taxes. These voter approval requirements of Article XIIIC reduce the flexibility of the City to raise revenues by the levy of general or special taxes and, given such voter approval requirements, no assurance can be given that the City will be able to enact, impose, extend, or increase any such taxes in the future to meet increased expenditure requirements. The City has not enacted, imposed, extended, or increased any tax since the effective date of Proposition 218.

Section 3 of Article XIIIC expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees, and charges, regardless of the date such taxes, assessments, fees, or charges were imposed. Section 3 expands the initiative power to include reducing or repealing assessments, fees, and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Article XIIIC to fees imposed after November 6, 1996, the effective date of Proposition 218, and absent other legal authority could result in the reduction in any existing taxes, assessments, or fees and charges imposed prior to November 6, 1996.

"Fees" and "charges" are not expressly defined in Article XIIIC or in SB 919, the Proposition 218 Omnibus Implementation Act enacted in 1997 to prescribe specific procedures and parameters for local jurisdictions in complying with Article XIIIC and Article XIIID ("SB 919"). Such terms are, however, defined in Article XIIID, discussed below. On July 24, 2006, the California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Virjil (Kelley)* (the "*Bighorn Decision*") that charges for ongoing water delivery are property-related fees and charges within the meaning of Article XIIID and are also fees or charges within the meaning of Section 3 of Article XIIIC. The California Supreme Court held that such water service charges may, therefore, be reduced or repealed through a local voter initiative pursuant to Section 3 of Article XIIIC.

In the *Bighorn Decision*, the Supreme Court did state that nothing in Section 3 of Article XIIIC authorizes initiative measures that impose voter-approval requirements for future increases in fees or charges for water delivery. The Supreme Court stated that water providers may determine rates and charges upon proper action of the governing body and that the governing body may increase a charge that was not affected by a prior initiative or impose an entirely new charge.

The Supreme Court further stated in the *Bighorn Decision* that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that water and wastewater service charges be set at a level that will pay debt service on bonded debt and operating expenses. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Additionally, SB 919 provides that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after November 5, 1996 (the date of adoption of Proposition 218), assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. No assurance can be given that the voters of the City will not, in the future, approve initiatives that repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the City's Water Service fees and charges, which are the source of Net System Revenues to make Subordinated Installment Payments, including the 2018 Subordinated Installment Payments and, in turn, payments of the principal of and interest on the 2018 Bonds, and other Outstanding Subordinated Obligations.

Notwithstanding the fact that water service charges may be subject to reduction or repeal by voter initiative undertaken pursuant to Section 3 of Article XIIIC, the City has covenanted to levy and charge rates that meet the requirements of the Master Installment Purchase Agreement in accordance with applicable law.

Article XIIID

Article XIIID defines a "fee" or "charge" as any levy other than an *ad valorem* tax, special tax, or assessment, imposed upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property-related service. A "property-related service" is defined as "a public service having a direct relationship to a property ownership." As discussed above, in the Bighorn Decision, the California Supreme Court held that a public water agency's charges for ongoing water delivery are fees and charges within the meaning of Article XIIID. Article XIIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, the local government's ability to increase such fee or charge may be limited by a majority protest.

The City's water service charges have two components, a base fee based on meter size and a commodity charge based on the volume of water consumed. The City has ratified prior increases in its water rates and charges, and believes it has complied with the applicable and material notice and protest procedures of Article XIIID for its current water rates and charges. As of the date of this Official Statement, there has not been and there is no pending litigation challenging any of the City's water fees and charges approved since the effective date of Proposition 218. While the City Attorney currently believes, based upon the judicial precedent in place during the period of these prior rate increases, that a reviewing court could reasonably uphold the validity of those increases, neither the City nor the City Attorney can provide any assurances as to the outcome of a challenge to the prior increases in the City's

water rates and charges that were not approved in accordance with the notice and hearing requirements of Article XIIID if one were brought.

In addition, Article XIIID also includes a number of limitations applicable to existing, new, or increased fees and charges, including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service; (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed; (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel; and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

Article XIIID establishes procedural requirements for the imposition of assessments, which are defined as any charge upon real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. Procedural requirements for assessments under Article XIIID include conducting a public hearing and mailed protest procedure, with notice to the record owner of each parcel subject to the assessment. The assessment may not be imposed if a majority of the ballots returned oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel. To provide guidance to City staff regarding the conduct of Proposition 218 "property-related fee" protest proceedings, the City Council adopted Resolution R-2007-655 in January 2007 establishing additional procedures for submitting protests against proposed increases to water rates, including the provision of notice of a proposed change in water fees to all owners of record on each identified parcel and all water customers of the City as reflected in the billing records of the City at the time the notice is given, and additional procedures for the tabulation of protests against proposed increases to water rates, including guidelines for determining when a valid protest has been submitted.

The City and the City Attorney believe that as of the date of this Official Statement that current water fees and charges that are subject to Proposition 218 materially comply with the provisions thereof. Should it become necessary to increase the water fees and charges above current levels, the City would be required to comply with the requirements of Article XIIID in connection with such proposed increase. Until recently, the City had not had a substantive legal challenge to water rate increases implemented by the City pursuant to Proposition 218 or otherwise. A complaint alleging charges in excess of costs of service, among other things, was filed against the City and other local agencies in December 2015. As of the date of this Official Statement and under existing standards as of such date, the City and the City Attorney believe that rates and charges may be established at levels that are expected to permit deposits to a Rate Stabilization Fund or maintenance of uncommitted cash reserves. See "WATER SYSTEM FINANCIAL OPERATIONS – Financial Projections and Modeling Assumptions." The City and the City Attorney believe that current water capacity fees are not subject to Proposition 218.

The interpretation and application of Proposition 218 will ultimately be determined by the courts or through implementing legislation with respect to a number of the matters described above, and it is not possible at this time to predict with certainty the outcome of such determination or the nature or scope of any such legislation.

Proposition 26

Proposition 26, a State ballot initiative aimed at restricting regulatory fees and charges, was approved by the California voters on November 2, 2010. Proposition 26 broadens the definition of "tax" in Article XIIIC of the California Constitution to include levies, charges and exactions imposed by local governments, except for charges imposed for benefits or privileges or for services or products granted to

the payor (and not provided to those not charged) that do not exceed their reasonable cost; regulatory fees that do not exceed the cost of regulation; fees for the use of local governmental property; fines and penalties imposed for violations of law; real property development fees; and assessments and property-related fees imposed under Article XIIID of the California Constitution. California local taxes are subject to approval by two-thirds of the voters voting on the ballot measure for authorization. Proposition 26 applies to charges imposed or increased by local governments after the date of its approval. The City believes that Proposition 26 does not apply to its water rates and charges because such fees and charges are within various exceptions to Proposition 26.

Initiative, Referendum and Charter Amendments

Under the State Constitution, the voters of the State have the ability to initiate legislation and require a public vote on legislation passed by the State Legislature through the powers of initiative and referendum, respectively. For example, Article XIIIA, Article XIIIB and Articles XIIIC and XIIID and Proposition 26 were adopted pursuant to the State's constitutional initiative process. Under the City Charter, the voters of the City can restrict or revise the powers of the City through the approval of a charter amendment. From time to time, other initiative measures could be adopted or legislative measures could be approved by the Legislature, which may place limitations on the ability of the City to increase revenues or to increase appropriations. Such measures may further affect the City's ability to collect taxes, assessments or fees and charges, which could have an effect on the Department's revenues. The City is unable to predict whether any such initiatives or charter amendments might be submitted to or approved by the voters, the nature of such initiatives or charter amendments, or their potential impact on the City or the Water Utility Fund. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Initiative, Referendum and Charter Amendments."

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2018 Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the 2018 Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority in connection with the 2018 Bonds, and Bond Counsel has assumed compliance by the Authority with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2018 Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the 2018 Bonds is exempt from State of California personal income.

Bond Counsel expresses no opinion as to any other federal, state or local tax consequences arising with respect to the 2018 Bonds, or the ownership or disposition thereof, except as stated above. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, any fact or circumstance that may thereafter come to its attention, any change in law or interpretation thereof that may thereafter occur, or for any other reason. Bond Counsel expresses no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, Bond Counsel expresses no opinion on the effect of any action taken or not

taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the 2018 Bonds.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the 2018 Bonds in order that interest on the 2018 Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the 2018 Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the 2018 Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the 2018 Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the 2018 Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the 2018 Bonds.

Prospective owners of the 2018 Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest on the 2018 Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of a Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity (a bond with the same maturity date, interest rate, and credit terms) means the first price at which at least 10 percent of such maturity was sold to the public, *i.e.*, a purchaser who is not, directly or indirectly, a signatory to a written contract to participate in the initial sale of the 2018 Bonds. In general, the issue price for each maturity of Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Bond Counsel further is of the opinion that, for any Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for federal income tax purposes to the same extent as other interest on the 2018 Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a

compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the 2018 Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the 2018 Bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the 2018 Bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the 2018 Bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the 2018 Bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the 2018 Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the 2018 Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to

backup withholding would be allowed as a refund or a credit against the owner's federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the 2018 Bonds under federal or state law or otherwise prevent beneficial owners of the 2018 Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the 2018 Bonds.

Prospective purchasers of the 2018 Bonds should consult their own tax advisors regarding the foregoing matters.

CONTINUING DISCLOSURE

2018 Bonds. Pursuant to the Continuing Disclosure Certificate of the City (the "Disclosure Certificate"), the City has agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board in the manner prescribed by the Securities and Exchange Commission certain annual financial information and operating data and notice of certain Notice Events (as described in the Continuing Disclosure Certificate). The form of the Disclosure Certificate is attached hereto as "APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE. The annual report to be filed by the City is to be filed not later than April 10 after the end of the City's Fiscal Year (which currently ends June 30), commencing with the report for the fiscal year ending June 30, 2019, and is to include audited financial statements of the City. The City's covenants in the Continuing Disclosure Certificate have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934 (the "Rule"). A failure by the City to comply with any of the covenants therein is not an event of default under the Indenture or the Master Installment Purchase Agreement.

The City has established an issuer's page on the MSRB's Electronic Municipal Market Access System ("EMMA") with respect to the Water Utility Bonds and Bank Loans. The City's home page can be accessed at the following Internet address:

http://emma.msrb.org/IssuerHomePage/Issuer?id=0DE785B24DBD675DE053151E0A0AE7C0&type=M

Neither the home page nor any information on the home page is made a part of this Official Statement, nor is it incorporated by reference herein and should not be relied upon in making an investment decision with respect to the 2018 Bonds.

Prior Continuing Disclosure Undertakings. The City is a party to a number of continuing disclosure undertakings with respect to securities payable from the City's General Fund, the Sewer Utility Fund and the Water Utility Fund pursuant to the Rule. The City is also a party to continuing disclosure undertakings with respect to three assessment or reassessment districts formed by the City, one of which remains in effect. The City manages the continuing disclosure undertakings of four community facilities districts formed by the City. The City also manages continuing disclosure undertakings of the City's former redevelopment agency (the "Former RDA") and the successor agency to the Former RDA (the "Successor Agency").

In the last five years, there have been seven instances in which the ratings on certain series of bonds issued by the City's Former RDA were changed as a result of a corresponding change in the rating

of the company insuring such bonds. Neither the City nor the Successor Agency had been notified directly of such changes. Upon becoming aware of such changes, corrected filings were made for those bonds that were outstanding at the time of the corrected filings. In addition, there was one bond issue of the City's Former RDA for which rating upgrades in 2013 and 2015 were not timely filed. Upon becoming aware of such failures, the 2015 rating upgrade was filed, which provided notice of the then current rating.

LITIGATION

As of the date of this Official Statement, there is no litigation pending against the City, the Corporation or the Authority or, to the knowledge of its respective executive officers, threatened, seeking to restrain or enjoin the issuance, sale, execution, or delivery of the 2018 Bonds or in any way contesting or affecting the validity of the 2018 Bonds or the authorizations or any proceedings of the City, the Corporation or the Authority taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the 2018 Bonds or the use of the proceeds of the 2018 Bonds.

There are no pending lawsuits that, in the opinion of the City Attorney, challenge the validity of the 2018 Bonds, the corporate existence of the City, the Corporation or the Authority, or the title of the executive officers thereof to their respective offices. In connection with this review, attention has been given to not only litigation pending against the City, but also litigation pending against the Department. At any given time, including the present, there are certain other claims and lawsuits against the City and the Department that arise in the normal course of operations of the Water System. Such matters could, if determined adversely to the City, affect expenditures by the City, and in some cases, the Water Utility Fund. In the view of the City's management and the Office of the City Attorney, there is no litigation, present or pending, which will individually or in the aggregate materially impair the Authority's ability to service its indebtedness or which will have a material adverse effect on the operations of the Water System, subject to the possible exception of the two matters described below.

UCCF Litigation. On May 9, 2018, the UCCF filed a Complaint for Declaratory Relief and Injunctive Relief and Petition for Mandate under CEQA (the "UCCF Petition"). The UCCF Petition challenges the City's approval of the North City Pure Water Program and certification of the EIR. The UCCF Petition does not provide any specific CEQA claims but makes a generic claim that the project and EIR were illegally approved. While there are no specific CEQA claims in the UCCF Petition, based upon the comments by UCCF's counsel during the administrative process, the UCCF may argue that the City failed to consider a reasonable range of project alternatives and that the City specifically failed to consider alternate pipeline alignments through the University City Community. The City expects that this argument will be unpersuasive because the City did, in fact, study a number of alternatives. However, the UCCF is not confined to this claim and could argue any claim raised in the administrative process. While the City Attorney's Office believes the City would have strong defenses against any such other theories, the City can give no assurance that it will prevail in this action.

In the event that UCCF prevails on an argument regarding the pipeline alignment, the City could experience delays to Pure Water Program projects of up to 2.5 years, increasing costs thereto by an estimated $130 million. This estimated cost increase would be composed mostly of escalation, but also includes the cost of additional environmental analyses and further engineering and design costs. In calculating this estimate, it was assumed that all of the Phase 1 Pure Water Program projects would be delayed based on the requirement that all of the projects must be constructed and proceed through individual functional testing before the full system may be commissioned.

SDG&E Dispute. In June 2018, SDG&E informed the City that it was stopping all design work on utility relocations for the Pure Water Program, pending advance payment for such work from the City. SDG&E argued that it was not responsible for the costs of relocating any of its facilities under its electric or natural gas franchise agreements with the City, on the basis that such work was proprietary and not governmental. The City Attorney's Office responded to SDG&E, expressing the City's strong disagreement with SDG&E's position based on the plain language in those franchise agreements, which the City believes requires SDG&E to relocate its facilities located in the public right-of-way at its own expense when necessary to accommodate City water projects, including the Pure Water Program. Absent and until a resolution with SDG&E is reached, to avoid project delays the Department's budgeted cost of all Water System capital improvement projects including, but not limited to, the Pure Water Program, includes the cost of any relocation of SDG&E facilities. The Department has projected a total of $75.0 million of advance payments to SDG&E for facilities relocations in Fiscal Years 2019 and 2020, which amount is included in the tables presented in this Official Statement under the category, "SDG&E Relocation Advance." The City maintains its position that SDG&E should bear the costs of its facilities relocations for all City water projects pursuant to the franchise agreements and reserves the right to seek reimbursement from SDG&E through all legal means available.

CERTAIN LEGAL MATTERS

The validity of the 2018 Bonds and certain other legal matters are subject to the approving opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX B hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Hawkins Delafield & Wood LLP, as Disclosure Counsel, will provide certain other legal services for the Authority. Certain legal matters will be passed upon for the Authority and the City by Mara W. Elliott, City Attorney, and for the Underwriters by their counsel, Nixon Peabody LLP, Los Angeles, California.

RATINGS

Fitch and Moody's Investors Service ("Moody's") have assigned their ratings of "AA-" and "Aa3," respectively, to the 2018 Bonds, each with a stable outlook. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Fitch Ratings, One State Street Plaza, New York, New York 10004 and Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own.

There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2018 Bonds. Neither the City nor the Authority undertakes any obligation to oppose any downward revision, suspension or withdrawal.

UNDERWRITING

The 2018 Bonds are being purchased by the Underwriters named on the cover page of this Official Statement (collectively, the "Underwriters"). Merrill Lynch, Pierce, Fenner & Smith Incorporated is serving as the representative of the Underwriters. The Underwriters have agreed, subject to certain conditions, to purchase the 2018 Bonds at a purchase price of $280,353,555.16 (equal to the original principal amount thereof, plus an original issue premium of $37,512,651.80, less an underwriters' discount of $339,096.64). The Underwriters are committed to purchase all of the 2018 Bonds if any are

purchased. The following paragraphs under this section have been provided by the Underwriters, respectively.

Citigroup Global Markets Inc., an underwriter of the 2018 Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts.

The Underwriters may offer and sell the 2018 Bonds to certain dealers and others at prices lower the public offering price stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriters.

MUNICIPAL ADVISOR

KNN Public Finance, a Limited Liability Company, has acted as Municipal Advisor to the City in conjunction with the issuance of the 2018 Bonds. The Municipal Advisor has assisted the City in preparation of this Official Statement and advised in other matters related to the planning, structuring, pricing, issuance and delivery of the 2018 Bonds. The Municipal Advisor will receive compensation contingent upon the sale and delivery of the 2018 Bonds.

The Municipal Advisor has not audited, authenticated or otherwise independently verified the information set forth in the Official Statement, or any other information related to the City with respect to the accuracy or completeness of disclosure of such information.

FINANCIAL STATEMENTS

The City prepares financial statements annually in conformity with generally accepted accounting principles for governmental entities, which are audited by an independent certified public accountant. The City's most recent financial statements, for the Fiscal Year ended June 30, 2017, were audited by Macias Gini & O'Connell LLP (the "Independent Auditor"), independent certified public accountants, as stated in their report. The City's basic financial statements contained in the City's CAFRs include the financial statements of the Water Utility Fund.

The City's CAFR for Fiscal Year 2017, which includes the City's audited basic financial statements as of and for the fiscal year ended June 30, 2017, is available through EMMA at https://emma.msrb.org/ES1102503-ES861503-ES1262644.pdf, the contents of which are incorporated by reference in this Official Statement and shall be deemed to be a part hereof. The City's CAFR for Fiscal Year 2018, which includes the City's audited basic financial statements as of and for the fiscal year ended June 30, 2018, audited by the Independent Auditor, as stated in their report, is attached hereto as APPENDIX E – "CITY OF SAN DIEGO COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

The Independent Auditor did not review this Official Statement. The City did not request the consent of the independent auditors to append the City's financial statements to this Official Statement. Accordingly, the independent auditors did not perform any procedures relating to any of the information in this Official Statement.

MISCELLANEOUS

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

There are appended to this Official Statement a summary of certain provisions of the principal and legal documents, the proposed form of opinion of Bond Counsel, and a general description of the City and a description of the Book-Entry Only System. The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement.

This Official Statement is not to be construed as a contract or agreement between the Authority or the City and the purchasers or holders of any of the 2018 Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the financial condition, results of operations, or any other affairs of the City, the Authority, or the Corporation since the date hereof.

PUBLIC FACILITIES FINANCING
AUTHORITY OF THE CITY OF SAN DIEGO

By: /s/ Georgette Gómez
Chair, Board of Commissioners

THE CITY OF SAN DIEGO

By: /s/ Rolando Charvel
Chief Financial Officer

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APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

This Appendix A contains only a brief summary of certain of the terms of the Master Installment Purchase Agreement and the Indenture relating to the 2018 Bonds and a full review should be made of the entire Official Statement, including the cover page and the Appendices. References to, and summaries of, provisions of the documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. All statements contained in this Appendix A are qualified in their entirety by reference to the entire Official Statement and the complete provisions of the documents referenced.

DEFINITIONS

Additional Bonds

The term "Additional Bonds" means, collectively, Additional Senior Bonds and Additional Subordinate Bonds.

Additional Senior Bonds

The term "Additional Senior Bonds" means those Bonds authorized and issued under the Indenture on a parity with the 2009A Bonds, the 2009B Bonds and the 2010A Bonds (none of which are outstanding), in accordance with the Indenture as summarized herein under the caption "Indenture – Additional Bonds – Proceedings for Execution and Delivery of Additional Bonds."

Additional Subordinated Bonds

The term "Additional Subordinated Bonds" means those Bonds authorized and issued under the Indenture on a parity with the 2012A Bonds and 2016 Bonds, in accordance with the Indenture as summarized herein under the caption "Indenture – Additional Bonds – Proceedings for Execution and Delivery of Additional Bonds."

Acquisition Fund

The term "Acquisition Fund" means the fund by that name established under the Indenture.

Amendment Effective Date

The term "Amendment Effective Date" means the date of delivery of the Fourth Supplemental Indenture and the requisite consent of the Owners of 51% in aggregate principal amount of the Senior Bonds then Outstanding and Owners of 51% in aggregate principal amount of the Subordinated Bonds then Outstanding has been received.

Beneficial Owners

The term "Beneficial Owners" means those individuals, partnerships, corporations or other entities for whom the Participants have caused the Depository to hold Book-Entry Bonds.

Board

The term "Board" means the Board of Commissioners of the Authority.

Bond or Bonds

The term "Bond" or "Bonds" means any of the bonds issued under the Indenture by the Authority, including any Additional Bonds.

Bond Counsel

The term "Bond Counsel" means a firm of attorneys that are nationally recognized as experts in the laws governing and relating to municipal finance.

Book-Entry Bonds

The term "Book-Entry Bonds" means Bonds executed and delivered under the book-entry system described in the Indenture.

Business Day

The term "Business Day" means a day of the year other than a Saturday or Sunday or a day on which banking institutions located in California are required or authorized to remain closed, or on which the New York Stock Exchange is closed. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Indenture, shall not be a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day, with the same force and effect as if done on the nominal date provided in the Indenture, and, unless otherwise specifically provided in the Indenture, no interest shall accrue for the period from and after such nominal date.

Certificate of the City

The term "Certificate of the City" means an instrument in writing signed by the Chief Financial Officer, the Chief Operating Officer, or any of their respective designees.

Charter

The term "Charter" means the Charter of the City as it now exists or may be amended, and any new or successor Charter.

Closing Date

The term "Closing Date" means any date upon which a Series of Bonds is purchased.

Code

The term "Code" means the Internal Revenue Code of 1986, as amended and the regulations thereunder, and any successor laws or regulations.

Commercial Paper Notes Components

The term "Commercial Paper Notes Components" means the Components of the Project specified in Exhibit A to the 2017 Commercial Paper Supplement to Amended and Restated Master Installment Purchase Agreement, dated January 1, 2017, by and between the City and the Corporation, as it may be modified from time to time in accordance with the 2017 Commercial Paper Supplement to Amended and

Restated Master Installment Purchase Agreement, for which the City will be making Commercial Paper Notes Subordinated Installment Payments.

Commercial Paper Notes Subordinated Installment Payments

The term "Commercial Paper Notes Subordinated Installment Payments" means the Installment Payments specified in the 2017 Commercial Paper Supplement to Amended and Restated Master Installment Purchase Agreement for payment of the Purchase Price of the Commercial Paper Notes Components in accordance with the terms hereof.

Common Subordinated Bonds Reserve Fund

The term "Common Subordinated Bonds Reserve Fund" means the fund by that name established under the Indenture.

Common Subordinated Reserve Fund Bonds

The term "Common Subordinated Reserve Fund Bonds" means Subordinated Bonds secured by the Common Subordinated Bonds Reserve Fund.

Common Subordinated Reserve Fund Bonds Maximum Annual Debt Service

The term "Common Subordinated Reserve Fund Bond Maximum Annual Debt Service" means, the maximum amount of principal and interest becoming due on the Common Subordinated Reserve Fund Bonds in the then-current or any future Fiscal Year, calculated by the Authority or by an Independent Certified Public Accountant in accordance with this subsection and provided to the Trustee. For purposes of calculating Common Subordinated Reserve Fund Bonds Maximum Annual Debt Service, the following assumptions shall be used to calculate the principal and interest becoming due in any Fiscal year:

(i) in determining the principal amount due in each Fiscal year, payments shall (except to the extent a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including the amount of any Common Subordinated Reserve Fund Bonds which are or have the characteristics of commercial paper and which are not intended at the time of issuance to be retired from the sale of a corresponding amount of Common Subordinated Reserve Fund Bonds, and including any scheduled mandatory redemption or prepayment of Common Subordinated Reserve Fund Bonds on the basis of accreted value due upon such redemption or prepayment, and for such purposes, the redemption payment or prepayment shall be deemed a principal payment; provided, however, that with respect to Common Subordinated Reserve Fund Bonds which are or have the characteristics of commercial paper and which are intended at the time of issuance to be retired from the sale of a corresponding amount of other Obligations, which other Obligations would not constitute Balloon Indebtedness, each maturity thereof shall be treated as if it were to be amortized in substantially equal installments of principal and interest over a term of 30 years, commencing in the year of such stated maturity; in determining the interest due in each Fiscal Year, interest payable at a fixed rate shall (except to the extent subsection (A)(ii) or (iii) of this definition applies) be assumed to be made at such fixed rate and on the required payment dates;

(ii) if all or any portion or portions of an Outstanding Series of Common Subordinated Reserve Fund Bonds constitute Balloon Indebtedness or if all or any portion or portions of a Series of Common Subordinated Reserve Fund Bonds or such payments then proposed to be issued would constitute Balloon Indebtedness, then, for purposes of determining Common Subordinated Reserve Fund

Bonds Maximum Annual Debt Service, each maturity which constitutes Balloon Indebtedness shall be treated as if it were to be amortized in substantially equal annual installments of principal and interest over a term of 30 years, commencing in the year the stated maturity of such Balloon Indebtedness occurs, the interest rate used for such computation shall be determined as provided in subsection (iv) or (v) below, as appropriate, and all payments of principal and interest becoming due prior to the year of the stated maturity of the Balloon Indebtedness shall be treated as described in subsection (i) above;

(iii) if any Outstanding Series of Common Subordinated Reserve Fund Bonds constitutes Tender Indebtedness or if Common Subordinated Reserve Fund Bonds proposed to be issued would constitute Tender Indebtedness, then for purposes of determining Common Subordinated Reserve Fund Bonds Maximum Annual Debt Service, Tender Indebtedness shall be treated as if the principal amount of such Common Subordinated Reserve Fund Bonds were to be amortized in accordance with the amortization schedule set forth in the Supplemental Indenture for such Tender Indebtedness or in the standby purchase or liquidity facility established with respect to such Tender Indebtedness, or if no such amortization schedule is set forth therein, then such Tender Indebtedness shall be deemed to be amortized in substantially equal annual installments of principal and interest over a term of 30 years commencing in the year in which such Series is first subject to tender, the interest rate used for such computation shall be determined as provided in subsection (iv) or (v) below, as appropriate;

(iv) if any Outstanding Series of Common Subordinated Reserve Fund Bonds constitutes Variable Rate Indebtedness, the interest rate on such Obligations shall be assumed to be 110% of the daily average interest rate on such Common Subordinated Reserve Fund Bonds during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Common Subordinated Reserve Fund Bonds shall have been Outstanding;

(v) if Common Subordinated Reserve Fund Bonds proposed to be issued will be Variable Rate Indebtedness, then such Common Subordinated Reserve Fund Bonds shall be assumed to bear interest at 80% of the average Revenue Bond Index during the calendar quarter preceding the calendar quarter in which the calculation is made, or if that index is no longer published, another similar index selected by the City, or if the City fails to select a replacement index, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity, or if there are no such Treasury bonds having such maturities, 100% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States ranked by assets; and

(vi) if moneys or Permitted Investments have been deposited by the City into a separate fund or account or are otherwise held by the City or by a fiduciary to be used to pay principal of and/or interest on specified Common Subordinated Reserve Fund Bonds, then the principal and/or interest to be paid from such moneys, Permitted Investments or from the earnings thereon shall be disregarded and not included in calculating Maximum Annual Debt Service.

Common Subordinated Bonds Reserve Requirement

The term "Common Subordinated Bonds Reserve Requirement" means, as of any date of computation by the Authority, an amount equal to the least of (i) ten percent (10%) of the proceeds (within the meaning of Section 148 of the Code) of the Common Subordinated Bond Reserve Fund Bonds; (ii) 125% of average annual debt service on the Outstanding Common Subordinated Reserve Fund Bonds; or (iii) Common Subordinated Reserve Fund Bonds Maximum Annual Debt Service; provided, however, that, if, upon issuance of a Series of Subordinated Bonds secured by the Common Subordinated Reserve Fund, such amount would require moneys to be credited to the Common Subordinated Reserve Fund from the proceeds of such Series of Subordinated Bonds in an amount in excess of the maximum amount permitted under the Code, the Common Subordinated Bonds Reserve Requirement shall mean an

amount equal to the sum of the Common Subordinated Bonds Reserve Requirement immediately preceding issuance of such Subordinated Bonds and the maximum amount permitted under the Code to be deposited therein from the proceeds of such Subordinated Bonds, as certified by the Authority; and provided further, that, for purposes of calculating average annual debt service on the Outstanding Common Subordinated Reserve Fund Bonds, the "average annual debt service" of a Series of Subordinated Bonds secured by the Common Subordinated Reserve Fund shall not be greater than the average annual debt service of such Series on the date of issuance of such Series. Upon early redemption of any Subordinated Bonds secured by the Common Subordinated Bonds Reserve Fund, the Authority, at the request of the City, may request the Trustee to recalculate and reduce the Common Subordinated Bonds Reserve Requirement, whereupon any excess in the Common Subordinated Bonds Reserve Fund over and above the Common Subordinated Bonds Reserve Requirement shall be transferred to the Subordinated Bonds Payment Fund.

Note: With respect to the four definitions above, no debt service reserve fund will be created or funded to secure the 2018 Bonds. Debt service reserve funds were created in connection with the issuance of the 2009A Bonds, 2009B Bonds, 2010A Bonds and 2012A Bonds and under the funding agreements for the SRF loans. Amounts on deposit in, or to be on deposit in, such debt service reserve funds are not available to secure the 2018 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – No Debt Service Reserve Fund for 2018 Bonds" in this Official Statement.

Components

The term "Components" means components of the Project for which the City makes Installment Payments or Subordinated Installment Payments pursuant to any Supplement.

Comptroller

The term "Comptroller" means the Comptroller of the City.

Corporate Trust Office of the Trustee

The term "Corporate Trust Office of the Trustee" means the corporate trust office of the Trustee at the address set forth in the Indenture or such other or additional offices as may be specified to the Authority by the Trustee in writing.

Costs of Issuance

The term "Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the City, the Corporation, or the Authority relating to the issuance, sale, and delivery of any Bonds under the Indenture, including, but not limited to, costs of preparation and reproduction of documents; fees and expenses of the Feasibility Consultant; fees and expenses of the Authority (including its counsel); expenses of the City, Authority, and Corporation staff; fees of the City's Financial Advisor; initial fees, expenses, and charges of the Trustee (including its counsel); Rating Agency fees; Underwriters' discount; legal fees and charges of Bond Counsel; Disclosure Counsel; Underwriters' counsel, and the City Attorney; and any other cost, charge, or fee in connection with the issuance and delivery of the Bonds.

Depository

The term "Depository" means the securities depository acting as Depository pursuant to the Indenture.

Draw; Drawn; Drawable

The term "Draw" means any drawing by the Issuing and Paying Agent on a Subordinated Credit Support Instrument; "Drawn" means at any time any Draw theretofore made; and "Drawable" means at any time any Draw that thereafter may be made.

DTC

The term "DTC" means The Depository Trust Company, New York, New York, and its successors.

Event of Default

The term "Event of Default" shall have that meaning set forth in the Indenture or the Master Installment Purchase Agreement, as applicable.

Federal Securities

The term "Federal Securities" means the following securities:

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

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

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

4. United States Treasury Obligations, State and Local Government Series.

First Supplemental Indenture

The term "First Supplemental Indenture" means the First Supplemental Indenture, dated as of June 1, 2009, by and between the Authority and the Trustee.

Fiscal Year

The term "Fiscal Year" means the fiscal year of the Authority, which, as of the date of the Indenture, is the period from July 1 to and including the following June 30.

Fitch

The term "Fitch" means Fitch Ratings and its successors and, if such company shall for any reason no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any nationally recognized securities rating agency designated by the Authority and the City.

Fifth Supplemental Indenture

The term "Fifth Supplemental Indenture" means the Fifth Supplemental Indenture, dated as of January 1, 2017, by and between the Authority and the Trustee.

Fourth Supplemental Indenture

The term "Fourth Supplemental Indenture" means the Fourth Supplemental Indenture, dated as of June 1, 2016, by and between the Authority and the Trustee.

Indenture

The term "Indenture" means the Original Indenture, as supplemented and amended by the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, the Fifth Supplemental Indenture and the Sixth Supplemental Indenture.

Information Services

The Term "Information Services" being Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Moody's "Municipal and Government," 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; and Xcitek's "Called Bond Service," 5 Hanover Square, New York, New York 10004, Attention: Bond Redemption Group; provided, however, in accordance with then current guidelines of the Securities and Exchange Commission, Information Services shall mean such other organizations providing information with respect to called bonds as the Authority may designate in writing to the Trustee.

Interest Account

The term "Interest Account" means the account by that name established under the Indenture.

Interest Payment Date

The term "Interest Payment Date" means, with respect to the 2018 Bonds, August 1, 2019, and each February 1 and August 1 thereafter until the Bonds are paid or redeemed in full.

Installment Payments

The term "Installment Payments" means Installment Payments that are Parity Obligations (as defined in the Master Installment Purchase Agreement), scheduled to be paid by the City under and pursuant to any Supplement that has been assigned to the Trustee (as assignee of the Authority) to secure any Bonds.

Issuing and Paying Agency Agreement

The term "Issuing and Paying Agency Agreement" means the Issuing and Paying Agency Agreement, dated as of January 1, 2017, by and between the Authority and the Issuing and Paying Agent, as the same may be amended and supplemented from time to time, or any other issuing and paying agency agreement which the Authority determines to be in replacement thereof as may be entered into by the Authority from time to time with respect to 2017 Commercial Paper Notes.

Issuing and Paying Agent

The term "Issuing and Paying Agent" means U.S. Bank National Association, or any other institution, appointed by the Authority pursuant to the Fifth Supplemental Indenture to serve as Issuing and Paying Agent in accordance with the Issuing and Paying Agency Agreement, or any successor thereto pursuant to this Indenture and the Issuing and Paying Agency Agreement.

Letter of Representations

The term "Letter of Representations" means the letter of the Authority delivered to and accepted by the Depository on or prior to the delivery of any Book-Entry Bonds setting forth the basis on which the Depository serves as depository for such Book-Entry Bonds, as originally executed or as it may be supplemented or revised or replaced by a letter to a substitute Depository.

Master Installment Purchase Agreement

The term "Master Installment Purchase Agreement" means the Master Installment Purchase Agreement, dated as of August 1, 2002, as amended and supplemented by the First Amendment to Amended and Restated Master Installment Purchase Agreement, dated as of November 14, 2018, a 2002 Supplement to Master Installment Purchase Agreement, dated as of August 1, 2002, a 2002 Supplement to Master Installment Purchase Agreement, dated as of October 1, 2002, an Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, a 2009A Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, a 2009B Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2009, a 2010A Supplement to Amended and Restated Master Installment Sale Agreement, dated as of June 1, 2010, a 2012A Supplement to Amended and Restated Master Installment Sale Agreement, dated as of April 1, 2012, a 2016 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2016, a 2017 Commercial Paper Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2017, and the 2018 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of December 1, 2018, each by and between the City and the Corporation, and as supplemented by the Collateral Agency, Account and Assignment Agreement, dated as of November 14, 2018, by and among the City, the Corporation, the Authority, the United States Environmental Protection Agency, acting by and through the Administrator of the Environmental Protection Agency, and U.S. Bank National Association as collateral agent under the Collateral Agency Agreement and as Trustee under the Indenture, as such Agreement may from time to time be further amended or supplemented by all Supplements executed pursuant to the provisions thereof.

Moody's

The term "Moody's" means Moody's Investors Service, a corporation organized under the laws of the State of Delaware, and its successors, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority and the City.

Nominee

The term "Nominee" means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

Original Indenture

The term "Original Indenture" means the Indenture, dated as of January 1, 2009, by and between the Authority and the Trustee.

Outstanding

The term "Outstanding," means, when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore or thereupon executed by the Authority and authenticated and delivered by the Trustee pursuant to the terms of the Indenture, except:

1. Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

2. Bonds paid or deemed to have been paid within the meaning of the Indenture;

3. Bonds beneficially owned by the City or the Authority; and

4. Bonds in lieu of or in substitution for which other Bonds shall have been executed by the Authority and authenticated and delivered pursuant to the terms of the Indenture.

Owner

The term "Owner" means any person who shall be the registered owner of any Outstanding Bond as shown on the registration books required to be maintained by the Trustee pursuant to the Indenture.

Parity Installment Payments

The term "Parity Installment Payments" means Installment Payments that are Parity Obligations scheduled to be paid by the City under and pursuant to any Supplement that has been assigned to the Trustee (as assignee of the Authority) to secure such Parity Obligations.

Participants

The term "Participants" means those broker-dealers, banks, and other financial institutions from time to time for which the Depository holds Book-Entry Bonds as securities depository.

Payment Fund

The term "Payment Fund" means the fund by that name established under the Indenture.

Permitted Investments

The term "Permitted Investments" means any of the following which, at the time of investment, are legal investments under the laws of the State for the moneys proposed to be invested therein:

(1) Federal Securities;

(2) The following listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

(A) Federal Home Loan Mortgage Corporation (FHLMC) senior debt obligations and Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts);

(B) Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) consolidated system-wide bonds and notes;

(C) Federal Home Loan Banks (FHL Banks) consolidated debt obligations;

(D) Federal National Mortgage Association (FNMA) senior debt obligations and mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts);

(E) The senior debt obligations of Resolution Funding Corporation (RFCO), Financing Corporation (FICO) and Tennessee Valley Authority (TVA);

(3) Obligations of any state, territory or commonwealth of the United States of America or any political subdivision thereof or any agency or department of the foregoing, that are rated, at the time of purchase, in the highest Rating Category by two Rating Agencies;

(4) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank. Investments under this subdivision shall be rated "AA" or better by a Rating Agency;

(5) Bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are rated, at the time of purchase, "A1/P1/F1" by two Rating Agencies or, if the term of such indebtedness is longer than one year, rated in the highest Rating Category by two Rating Agencies;

(6) Taxable commercial paper or tax-exempt commercial paper with a maturity of not more than 270 days, which are rated, at the time of purchase, "A1/P1/F1" by two Rating Agencies;

(7) Deposit accounts or certificates of deposit, whether negotiable or non-negotiable, issued by a state or national bank (including the Trustee) or a state or federal savings and loan association or a state-licensed branch of a foreign bank; provided, however, that such certificates of deposit or deposit accounts shall be either (A) continuously insured by the Federal Deposit Insurance Corporation; or (B) have maturities of not more than 365 days (including certificates of deposit) and are issued by any state or national bank or a state or federal savings and loan association, the short-term obligations of which are rated, at the time of purchase, in the highest short term rating by two Rating Agencies;

(8) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, which bank has short-term obligations outstanding which are rated, at the time of purchase, by two Rating Agencies in the highest short-term Rating Category, and which bankers acceptances mature not later than 365 days from the date of purchase;

(9) Any repurchase agreement: (A) with (i) any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee), or a

state-licensed branch of a foreign bank, having a minimum permanent capital of one hundred million dollars ($100,000,000) and having short-term debt which is rated, at the time of the purchase, by two Rating Agencies in one of the three highest short-term Rating Categories; or (ii) any government bond dealer reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York; and (B) which agreement is secured by any one or more of the securities and obligations described in clause (1) or (2) of this definition and having maturities equal to or less than 5 years from the date of delivery, which shall have a market value (valued at least monthly) not less than 102% of the principal amount of such investment and shall be placed with the Trustee or other fiduciary, as custodian for the Trustee, by the bank, trust company, national banking association or bond dealer executing such repurchase agreement. The entity executing each such repurchase agreement required to be so secured shall furnish the Trustee with an undertaking satisfactory to the Trustee that the aggregate market value of all such obligations securing each such repurchase agreement (as valued at least monthly) will be an amount equal to 102% the principal amount of such repurchase agreement, and the Trustee shall be entitled to rely on each such undertaking;

(10) Any cash sweep or similar account arrangement of or available to the Trustee, the investments of which are limited to investments described in clauses (1), (2), (3) and (9) of this definition and any money market fund, the entire investments of which are limited to investments described in clauses (1), (2), (3) and (9) of this definition and which money market fund is rated, at the time or purchase, by at least one Rating Agency in the highest Rating Category;

(11) Any guaranteed investment contract, including forward delivery agreements ("FDAs") and forward purchase agreements ("FPAs"), with a financial institution or insurance company which has (or which is unconditionally guaranteed by a legal entity which has), at the date of execution thereof, an outstanding issue of unsecured, uninsured and unguaranteed debt obligations or a claims-paying ability which is rated, at the time of purchase, by two Rating Agencies in one of two highest long-term Rating Categories. Only Permitted Investments described in clause (1) and (2) of this definition and having maturities equal to or less than 30 years from their date of delivery will be considered eligible for any collateralization/delivery purposes for guaranteed investment contracts, FDAs or FPAs;

(12) Certificates, notes, warrants, bonds or other evidence of indebtedness of the State or of any political subdivision or public agency thereof which are rated, at the time of purchase, by two Rating Agencies in the highest short-term Rating Category or within one of the three highest long-term Rating Categories, but excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date;

(13) For amounts less than $250,000, interest-bearing demand or time deposits (including certificates of deposit) in a nationally or state-chartered bank, or a state or federal savings and loan association in the State, fully insured by the Federal Deposit Insurance Corporation, including the Trustee or any affiliate thereof;

(14) Investments in Constant Net Asset Value taxable money market funds or portfolios restricted to obligations with an average maturity of one year or less and which funds or portfolios are: (A) rated, at the time of purchase, by two Rating Agencies in one of the two highest Rating Categories; or (B) have or are portfolios guaranteed as to payment of principal and interest by the full faith and credit of the United States of America;

(15) Investments in the City Treasurer's pooled investment fund;

(16) Shares of beneficial interest in diversified management companies investing exclusively in securities and obligations described in clauses (1) through (13) of this definition and which companies

are: (A) rated, at the time of purchase, by two Rating Agencies in the highest Rating Category; or (B) have an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience investing in such securities and obligations and with assets under management in excess of five hundred million dollars ($500,000,000);

(17) Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State which consists exclusively of investments permitted by Section 53601 of Title 5, Division 2, Chapter 4 of the Government Code of the State, as it may be amended; and

(18) Any other investment, with confirmation (or other action, satisfactory to the City) from each rating agency that has a current rating on the Bonds at the time of initial purchase thereof, that its rating on the Bonds will not be lowered or withdrawn as a result of such investment.

Person

The term "Person" means any legal entity or natural person, as the context may require.

Pre-Refunded Municipals

The term "Pre-Refunded Municipals" means any bonds or other obligations of any state of the United States of America or of any agency, instrumentality, or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice.

Principal Account

The term "Principal Account" means the account of that name established under the Indenture.

Principal Payment Date

The term "Principal Payment Date" means, (i) with respect to the 2009A Bonds, each August 1, commencing August 1, 2009, through and including August 1, 2038, (ii) with respect to the 2009B Bonds, each August 1, commencing August 1, 2010, through and including August 1, 2039, (iii) with respect to the 2010A Bonds, each August 1, commencing August 1, 2022, through and including August 1, 2028, (iv) with respect to the 2012A Bonds, each August 1, commencing August 1, 2012, through and including August 1, 2032, (v) with respect to the 2016 Bonds, each August 1, commencing August 1, 2016, through and including August 1, 2045, (vi) with respect to the 2017 Commercial Paper Notes, means each August 1, each date on which 2017 Commercial Paper Notes are due and payable, and such other date as provided for in a Supplemental Indenture; and (vii) with respect to the 2018 Bonds, each August 1, as set forth in the Sixth Supplemental Indenture.

Project

The term "Project" means the acquisition, construction, installation, and improvements to the Water System described in Exhibit A to the Master Installment Purchase Agreement and as modified with respect to Components in conformance with the Master Installment Purchase Agreement.

Project Costs

The term "Project Costs" means the costs of the Project disbursed from time to time by the Comptroller from the Acquisition Fund pursuant to the Indenture.

Purchase Price

The term "Purchase Price" means the principal amount plus interest thereon owed by the City under the terms of the Master Installment Purchase Agreement as provided in the Indenture thereof and as specified in a Supplement.

Rating Agency

The term "Rating Agency" means Fitch, Moody's, or S&P.

Rebate Fund

The term "Rebate Fund" means the fund by that name created under the Indenture and any other accounts thereunder.

Record Date

The term "Record Date" means the fifteenth day of the calendar month immediately preceding an Interest Payment Date, whether or not such day is a Business Day.

Redemption Account

The term "Redemption Account" means the account by that name established under the Indenture.

Reserve Fund

The term "Reserve Fund" means the fund by that name established under the Indenture, in which the Reserve Requirement shall be held and invested.

Reserve Requirement

The term "Reserve Requirement" means, as of any date of calculation, the least of (10%) of the proceeds (within the meaning of section 148 of the Code) of the Bonds; (ii) 125% of average annual debt service on the then-Outstanding Bonds; or (iii) the Maximum Annual Debt Service for that and any subsequent year. Upon early redemption of any of the Bonds, the Authority, at the request of the City, may request the Trustee to recalculate and reduce any Reserve Requirement, whereupon any excess in the Reserve Fund over and above such Reserve Requirement shall be transferred to the Payment Fund.

Note: With respect to the two definitions above, no debt service reserve fund will be created or funded to secure the 2018 Bonds. Debt service reserve funds were created in connection with the issuance of the 2009A Bonds, 2009B Bonds, 2010A Bonds and 2012A Bonds and under the funding agreements for the SRF loans. Amounts on deposit in, or to be on deposit in, such debt service reserve funds are not available to secure the 2018 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – No Debt Service Reserve Fund for 2018 Bonds" in this Official Statement.

Revenues

The term "Revenues" means all Installment Payments received by or due to be paid to the Corporation, and the interest, and the interest or profits from the investment of money in any account or fund (other than the Subordinated Bonds Payment Fund, the Subordinated Bonds Reserve Fund and the Rebate Fund) pursuant to the Indenture.

S&P

The term "S&P" means Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, and its successors, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority and the City.

Second Supplemental Indenture

The term "Second Supplemental Indenture" means the Second Supplemental Indenture, dated as of June 1, 2010, by and the Authority and the Trustee.

Securities Depository

The term "Securities Depository" means The Depository Trust Company, 55 Water Street, 50th Floor, New York, N.Y. 10041-0099 Attn. Call Notification Department, Fax (212) 855-7232, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other securities depositories, or no such depositories, as the Authority may indicate in a Written Request of the Authority delivered to the Trustee.

Senior Bonds

The term "Senior Bonds" means the 2009A Bonds, the 2009B Bonds, the 2010A Bonds (none of which are outstanding) and any other Bonds secured by pledge of Revenues on a parity with such Bonds.

Separate Subordinated Bonds Reserve Fund

The term "Separate Subordinated Bonds Reserve Fund" means a reserve fund, if any, created pursuant to a Supplemental Indenture for a Series of Subordinated Bonds that is not part of the Common Subordinated Bonds Reserve Fund.

Separate Subordinated Bonds Reserve Requirement

The term "Separate Subordinated Bonds Reserve Requirement" means the requirement set forth in the Supplemental Indenture establishing a Separate Subordinated Bonds Reserve Fund.

Note: With respect to the two definitions above, no debt service reserve fund will be created or funded to secure the 2018 Bonds. Debt service reserve funds were created in connection with the issuance of the 2009A Bonds, 2009B Bonds, 2010A Bonds and 2012A Bonds and under the funding agreements for the SRF loans. Amounts on deposit in, or to be on deposit in, such debt service reserve funds are not available to secure the 2018 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – No Debt Service Reserve Fund for 2018 Bonds" in this Official Statement.

Sixth Supplemental Indenture

The term "Sixth Supplemental Indenture" means the Sixth Supplemental Indenture, dated as of December 1, 2018, by and between the Authority and the Trustee.

State

The term "State" means the State of California.

Subordinated Bonds

The term "Subordinated Bonds" means the 2012A Bonds and 2016 Bonds and any other Bonds secured by a pledge of Subordinated Revenues on a parity with such Bonds.

Subordinated Bonds Interest Account

The term "Subordinated Bonds Interest Account" means the account by that name established under the Indenture.

Subordinated Bonds Payment Fund

The term "Subordinated Bonds Payment Fund" means the fund by that name established under the Indenture.

Subordinated Bonds Principal Account

The term "Subordinated Bonds Principal Account" means the account by that name established under the Indenture.

Subordinated Bonds Redemption Account

The term "Subordinated Bonds Redemption Account" means the account by that name established under the Indenture.

Subordinated Bonds Reserve Fund

The term "Subordinated Bonds Reserve Fund" means the fund by that name established under the Indenture. No debt service reserve fund will be created or funded to secure the 2018 Bonds. Debt service reserve funds were created in connection with the issuance of the 2009A Bonds, 2009B Bonds, 2010A Bonds and 2012A Bonds and under the funding agreements for the SRF loans. Amounts on deposit in, or to be on deposit in, such debt service reserve funds are not available to secure the 2018 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – No Debt Service Reserve Fund for 2018 Bonds" in this Official Statement.

Subordinated Credit Provider

The term "Subordinated Credit Provider" means the provider or, collectively, providers of a Subordinated Credit Support Instrument for the 2017 Commercial Paper Notes.

Subordinated Credit Support Instrument

The term "Subordinated Credit Support Instrument" means, with respect to a series or subseries of the 2017 Commercial Paper Notes, a Subordinated Credit Support Instrument supporting such 2017 Commercial Paper Notes.

Subordinated Installment Payments

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

Subordinated Revenues

The term "Subordinated Revenues" means all Subordinated Installment Payments received by or due to the Corporation pursuant to the Master Installment Purchase Agreement and the interest or profits from the investment of money in the Subordinated Bonds Payment Fund and the Subordinated Bonds Reserve Fund.

Supplement

The term "Supplement" means a supplement to the Master Installment Purchase Agreement providing for the payment of specific Installment Payments as the Purchase Price for Components of the Project, executed and delivered by the City and the Corporation.

Supplemental Indenture

The term "Supplemental Indenture" means any indenture supplemental to or amendatory of the Indenture duly executed and delivered by the Authority and the Trustee as authorized under the Indenture.

Surety Bond

The term "Surety Bond" means a reserve bond, insurance policy, letter of credit, or other similar instrument rated "Aa3" or "AA-" or better by at least two Rating Agencies at the time of purchase or issuance and providing, by its terms, a stated amount as a credit towards or in satisfaction of all or part of the Reserve Requirement, which Surety Bond shall be held by the Trustee in trust pursuant to the Indenture. A Surety Bond shall constitute and qualify as a "Reserve Fund Credit Facility," as such term is defined in the Master Installment Purchase Agreement.

Tax Certificate

The term "Tax Certificate" means the Tax Exemption Certificate delivered with respect to Tax-Exempt Bonds on their Closing Date.

Tax-Exempt Bonds

The term "Tax-Exempt Bonds" means those Bonds that, by their terms, bear interest that is excluded from gross income for federal income tax purposes, pursuant to the Code.

Third Supplemental Indenture

The term "Third Supplemental Indenture" means the Third Supplemental Indenture, dated as of March 1, 2012, by and between the Authority and the Trustee.

Treasurer

The term "Treasurer" means the Office of the City Treasurer of the City of San Diego.

Trustee

The term "Trustee" means U.S. Bank National Association, a national banking association existing under and by virtue of the laws of the United States, or any other bank or trust company that may at any time be substituted in its place as provided in the Indenture.

Underwriters

The term "Underwriters" means, with respect to the 2018 Bonds, collectively, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc., 280 Securities LLC, Hilltop Securities Inc., and UBS Financial Services Inc.

Water System

The term "Water System" means any and all facilities, properties, improvements, and works at any time owned, controlled, or operated by the City as part of the public utility system of the City for water purposes, for the development, obtaining, conservation, production, storage, treatment, transmission, furnishing, and distribution of water and its other commodities or byproducts for public and private use (whether located within or outside the City), and any related or incidental operations designated by the City as part of the Water System, including reclaimed and re-purified water.

Written Request of the Authority

The term "Written Request of the Authority" means instrument in writing signed by the Chair, the Vice Chair, or the Secretary of the Authority, or by any other officer or Commissioner of the Board duly authorized by the Authority for that purpose.

Written Request of the City

The term "Written Request of the City" means an instrument in writing signed by the Chief Operating Officer, the Chief Financial Officer or any of their respective designees, or by any other official of the applicable administrative departments of the City duly authorized by the City for that purpose.

2009A Bonds

The term "2009A Bonds" means the Public Facilities Financing Authority of the City of San Diego Water Revenue Bonds, Series 2009A (Payable Solely From Installment Payments Secured by Net System Revenues of the Water Utility Fund) issued in the aggregate principal amount of $157,190,000 (none of which are outstanding).

2009B Bonds

The term "2009B Bonds" means the Public Facilities Financing Authority of the City of San Diego Water Revenue Bonds, Series 2009B (Payable Solely From Installment Payments Secured by Net System Revenues of the Water Utility Fund) issued in the aggregate principal amount of $328,060,000 (none of which are outstanding).

2010A Bonds

The term "2010A Bonds" means the Public Facilities Financing Authority of the City of San Diego Water Revenue Bonds, Refunding Series 2010A (Payable Solely from Installment Payments Secured by Net System Revenues of the Water Utility Fund), issued under the Indenture in the original aggregate principal amount of $123,075,000 (none of which are outstanding).

2012A Bonds

The term "2012A Bonds" means the Authority's Subordinated Water Revenue Bonds, Refunding Series 2012A (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund), issued under the Indenture in the original aggregate principal amount of $188,610,000.

2016 Bonds

The term "2016 Bonds" means the 2016A Bonds and the 2016B Bonds.

2016A Bonds

The term "2016A Bonds" means the Authority's Subordinated Water Revenue Bonds, Refunding Series 2016A (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund), issued under the Indenture.

2016B Bonds

The term "2016B Bonds" means the Authority's Subordinated Water Revenue Bonds, Refunding Series 2016B (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund), issued under the Indenture.

2017 Commercial Paper Notes

The term "2017 Commercial Paper Notes" means the Authority's Subordinated Water Revenue Commercial Paper Notes (Payable Solely from Subordinated Installment Payments Secured by the Net System Revenues of the Water Utility Fund) issued from time to time under the Indenture.

2018 Bonds

The term "2018 Bonds" means the Authority's Subordinated Water Revenue Bonds, Series 2018A (Payable Solely From Subordinated Installment Payments Secured by the Net System Revenues of the Water Utility Fund of the City of San Diego), issued under the Indenture.

2018 Components

The term "2018 Components" means the Components of the Project specified in the 2018 Supplement, for which the City will be making 2018 Subordinated Installment Payments.

2018 Subordinated Installment Payments

The term "2018 Subordinated Installment Payments" means those Installment Payments scheduled to be paid by the City under the 2018 Supplement.

2018 Supplement

The term "2018 Supplement" means the 2018 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of December 1, 2018, by and between the City and the Corporation.

INDENTURE

Establishment of Funds; Deposit and Application

Establishment of Funds and Accounts.

(a) Pursuant to the Original Indenture, the Trustee has established the Payment Fund, including the Interest Account, the Principal Account, and the Redemption Account for the Senior Bonds and the Subordinated Bond Payment Fund, including the Subordinated Bonds Interest Account, the Subordinated Bonds Principal Account, and the Subordinated Bonds Redemption Account for the Subordinated Bonds.

(d) Pursuant to the Original Indenture, the Trustee has established the Reserve Fund for the Senior Bonds, and, pursuant to the Third Supplement, the Subordinated Bonds Reserve Fund and the Common Subordinated Bonds Reserve Fund, in order to facilitate compliance by the City with the Tax Certificate and the Master Installment Purchase Agreement.

Subordinated Bonds Payment Fund. The Trustee shall establish and maintain a special trust fund to be designated the "City of San Diego Water System Improvement Project Subordinated Bonds Payment Fund" (the "Subordinated Bonds Payment Fund"). Within the Subordinated Bonds Payment Fund, the Trustee shall establish and maintain a Subordinated Bonds Interest Account (the "Subordinated Bonds Interest Account"), a Subordinated Bonds Principal Account (the "Subordinated Bonds Principal Account"), and a Subordinated Bonds Redemption Account (the "Subordinated Bonds Redemption Account").

Subordinated Bonds Reserve Fund. The Trustee shall establish and maintain a special trust fund to be designated the "City of San Diego Water System Improvement Project Subordinated Bonds Reserve Fund" (the "Subordinated Bonds Reserve Fund"). Within the Subordinated Bonds Reserve Fund, the Trustee shall establish and maintain a Common Subordinated Bonds Reserve Fund (the "Common Subordinated Bonds Reserve Fund") and shall establish and maintain any Separate Subordinated Bonds Reserve Fund required by a Supplemental Indenture to be established and maintained.

(a) The Subordinated Bonds Reserve Fund and, within the Subordinated Bonds Reserve Fund, the Common Subordinated Bonds Reserve Fund and each separate Subordinated Bonds Reserve Fund are each a separate fund held in trust by the Trustee. An amount equal to the Common

Subordinated Bond Reserve Requirement shall be maintained in or credited to the Common Subordinated Bonds Reserve Fund and amounts equal to each Separate Subordinated Bonds Reserve Requirement shall be maintained in or credited to such Separate Subordinated Bonds Reserve Fund at all times, subject to the provisions of subsection (e) of this section, and any deficiency therein shall be replenished from the first available Subordinated Revenues pursuant to paragraph (e) below.

(b) Moneys in or available from the Subordinated Bonds Reserve Fund shall be used solely for the purpose of paying the principal of and interest on the Subordinated Bonds, including the redemption price of the Subordinated Bonds coming due and payable by operation of mandatory sinking fund redemption, in the event that the moneys in the Subordinated Bonds Payment Fund are insufficient therefor. If and during such time as a Surety Bond is in effect for a Series of Subordinated Bonds secured by a Separate Subordinated Reserve Fund, not less than two Business Days prior to each Interest Payment Date, the Trustee shall ascertain the necessity for a draw upon the Surety Bond and, if the draw is necessary, shall provide notice thereof to the provider of the Surety Bond in accordance with the terms of the Surety Bond at least two Business Days prior to each Interest Payment Date. In the event that the amount on deposit in the Subordinated Bonds Payment Fund on any date is insufficient to enable the Trustee to pay in full the aggregate amount of principal of and interest on such Series of Subordinated Bonds secured by a Separate Subordinated Reserve Fund coming due and payable by operation of mandatory sinking fund redemption, the Trustee shall withdraw the amount of such insufficiency from the applicable Separate Subordinated Bonds Reserve Fund of make a draw upon the applicable Surety Bond in the amount of such insufficiency and transfer such amount to the Subordinated Bonds Payment Fund. Amounts on deposit in the Subordinated Bonds Reserve Fund shall not be applied to the payment of Senior Bonds.

(c) In the event that the amount on deposit in the Common Subordinated Bonds Reserve Fund or a Separate Subordinated Bonds Reserve Fund exceeds the Common Subordinated Bonds Reserve Requirement or applicable Separate Subordinated Bonds Reserve Fund Requirement on the fifteenth (15th) calendar day of the month preceding any Interest Payment Date, the amount of such excess shall be withdrawn therefrom by the Trustee and transferred to (a) the Rebate Fund, to the extent required under the Indenture, or (b) the Subordinated Bonds Payment Fund. In any case where a fund in a Separate Subordinated Bonds Reserve Fund is funded with a combination of cash and a Surety Bond, any such withdrawal of excess shall be effected through a withdrawal of cash not a reduction in the amount of the Surety Bond. The remaining balance in any fund in the Subordinated Bonds Reserve Fund may be applied at the direction of the Authority, to the payment of the final maturing principal payments of Subordinated Bonds secured by such fund.

(d) The Authority may replace all or a portion of a Separate Subordinated Bonds Reserve Fund Requirement, originally funded with cash, with one or more Surety Bonds. Upon deposit of any Surety Bond with the Trustee, the Trustee shall transfer to the Acquisition Fund from amounts in the related Separate Subordinated Bonds Reserve Fund an amount equal to the principal of the Surety Bond, which principal shall comprise the Separate Subordinated Bonds Reserve Fund, as applicable, under the Indenture, or make other transfers in accordance with a Written Direction of the City.

In any case where a fund in a Separate Subordinated Bonds Reserve Fund is funded with a combination of cash and a Surety Bond, the Trustee shall deplete all cash balances before drawing on the related Surety Bond. With regard to replenishment, any available moneys provided by the City shall be used first to reinstate the related Surety Bond and second, to replenish the cash in the related Separate Subordinated Bonds Reserve Fund in accordance with subsection (e) of this section. In the event the Surety Bond is drawn upon, the City shall make payment of interest on amounts advanced under the Surety Bond after making any payments pursuant to the Indenture as summarized herein under the

caption "Indenture – Revenues – Maintenance of Accounts for Use of Money in the Subordinated Bonds Payment Fund."

In the event the Surety Bond is scheduled to lapse or expire, the Trustee shall draw upon such Surety Bond prior to its lapsing or expiring in the full amount of such Surety Bond, make deposits from available Subordinated Revenues to the Separate Subordinated Bonds Reserve Fund, as applicable, to increase the amount on deposit therein to the Separate Subordinated Bonds Reserve Fund Requirement, as applicable or substitute such Surety Bond with a Surety Bond that satisfies the requirements of this section.

The Authority acknowledges that the rating on any Surety Bond obtained or provided under the Indenture may change after the date such Surety Bond is purchased or issued. Within twelve (12) months after the date that the Authority obtains actual knowledge that any Surety Bond is no longer rated at least "Aa3" or "AA-" by any Rating Agency, the Authority shall either (i) deposit into the related Separate Subordinated Bonds Reserve Fund, as applicable, money in an amount equal to the stated or principal amount of such Surety Bond or (ii) obtain a substitute Surety Bond that satisfies the provisions of the Indenture.

(e) In the event that the amount on deposit in the Common Subordinated Bonds Reserve Fund or Separate Subordinated Bonds Reserve Fund at any time falls below the Common Subordinated Bonds Reserve Requirement or Separate Subordinated Bonds Reserve Fund Requirement, as applicable, or in the event of a draw on the Surety Bond deposited therein, the Trustee shall promptly notify the City and the Authority of such fact and the Trustee shall promptly (A)(i) withdraw the amount of such insufficiency from available Subordinated Revenues on deposit in the Subordinated Bonds Payment Fund, and (ii) transfer such amount to the Common Subordinated Bonds Reserve Fund or applicable Separate Subordinated Bonds Reserve Fund or (B) withdraw an amount necessary to repay such drawing on the Surety Bond and related expenses. Repayment of draws, expenses and accrued interest (collectively, "Policy Costs") shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw.

(f) Notwithstanding any other provision in the Indenture, amounts in deposit in the Common Subordinated Bonds Reserve Fund shall secure and shall be used solely for the purpose of paying the principal of and interest on Common Subordinated Reserve Fund Bonds and amounts on deposit in a Separate Subordinated Bonds Reserve Fund shall secure and shall be used solely for the purpose of paying the principal of and interest on Subordinated Bonds specified in the Supplemental Indenture as secured by such Separate Subordinated Bonds Reserve Fund.

Senior Bonds Reserve Fund.

(a) Within the Reserve Fund, the Trustee shall establish and maintain a Common Senior Bonds Reserve Fund (the "Common Senior Bonds Reserve Fund") and shall establish and maintain any Separate Senior Bonds Reserve Fund required by a Supplemental Indenture to be established and maintained. The Reserve Fund and, within the Reserve Fund, the Common Senior Bonds Reserve Fund and each separate Senior Bonds Reserve Fund are each a separate fund held in trust by the Trustee. An amount equal to the Common Senior Bond Reserve Requirement shall be maintained in or credited to the Common Senior Bonds Reserve Fund and amounts equal to each Separate Senior Bonds Reserve Requirement shall be maintained in or credited to such Separate Senior Bonds Reserve Fund at all times, subject to the provisions of subsection (e) below, and any deficiency therein shall be replenished from the first available Senior Revenues pursuant to (e) below.

(b) Moneys in or available from the Reserve Fund shall be used solely for the purpose of paying the principal of and interest on the Senior Bonds, including the redemption price of the Senior Bonds coming due and payable by operation of mandatory sinking fund redemption, in the event that the moneys in the Senior Bonds Payment Fund are insufficient therefor. If and during such time as a Surety Bond is in effect for a Series of Senior Bonds secured by a Separate Senior Reserve Fund, not less than two Business Days prior to each Interest Payment Date, the Trustee shall ascertain the necessity for a draw upon the Surety Bond and, if the draw is necessary, shall provide notice thereof to the provider of the Surety Bond in accordance with the terms of the Surety Bond at least two Business Days prior to each Interest Payment Date. In the event that the amount on deposit in the Senior Bonds Payment Fund on any date is insufficient to enable the Trustee to pay in full the aggregate amount of principal of and interest on such Series of Senior Bonds secured by a Separate Senior Reserve Fund coming due and payable by operation of mandatory sinking fund redemption, the Trustee shall withdraw the amount of such insufficiency from the applicable Separate Senior Bonds Reserve Fund of make a draw upon the applicable Surety Bond in the amount of such insufficiency and transfer such amount to the Senior Bonds Payment Fund. Amounts on deposit in the Reserve Fund shall not be applied to the payment of Subordinated Bonds.

(c) In the event that the amount on deposit in the Common Senior Bonds Reserve Fund or a Separate Senior Bonds Reserve Fund exceeds the Common Senior Bonds Reserve Requirement or applicable Separate Senior Bonds Reserve Fund Requirement on the fifteenth (15th) calendar day of the month preceding any Interest Payment Date, the amount of such excess shall be withdrawn therefrom by the Trustee and transferred to (a) the Rebate Fund, to the extent required under the Indenture, or (b) the Senior Bonds Payment Fund. In any case where a fund in a Separate Senior Bonds Reserve Fund is funded with a combination of cash and a Surety Bond, any such withdrawal of excess shall be effected through a withdrawal of cash not a reduction in the amount of the Surety Bond. The remaining balance in any fund in the Senior Bonds Reserve Fund may be applied at the direction of the Authority, to the payment of the final maturing principal payments of Senior Bonds secured by such fund.

(d) The Authority may replace all or a portion of a Separate Senior Bonds Reserve Fund Requirement, originally funded with cash, with one or more Surety Bonds. Upon deposit of any Surety Bond with the Trustee, the Trustee shall transfer to the Acquisition Fund from amounts in the related Separate Senior Bonds Reserve Fund an amount equal to the principal of the Surety Bond, which principal shall comprise the Separate Senior Bonds Reserve Fund, as applicable, under the Indenture, or make other transfers in accordance with a Written Direction of the City.

In any case where a fund in a Separate Senior Bonds Reserve Fund is funded with a combination of cash and a Surety Bond, the Trustee shall deplete all cash balances before drawing on the related Surety Bond. With regard to replenishment, any available moneys provided by the City shall be used first to reinstate the related Surety Bond and second, to replenish the cash in the related Separate Senior Bonds Reserve Fund in accordance with subsection (e) of this section. In the event the Surety Bond is drawn upon, the City shall make payment of interest on amounts advanced under the Surety Bond after making any payments pursuant to the Indenture.

In the event the Surety Bond is scheduled to lapse or expire, the Trustee shall draw upon such Surety Bond prior to its lapsing or expiring in the full amount of such Surety Bond, make deposits from available Senior Revenues to the Separate Senior Bonds Reserve Fund, as applicable, to increase the amount on deposit therein to the Separate Senior Bonds Reserve Fund Requirement, as applicable or substitute such Surety Bond with a Surety Bond that satisfies the requirements of this section.

(e) In the event that the amount on deposit in the Common Senior Bonds Reserve Fund or Separate Senior Bonds Reserve Fund at any time falls below the Common Senior Bonds Reserve

Requirement or Separate Senior Bonds Reserve Fund Requirement, as applicable, or in the event of a draw on the Surety Bond deposited therein, the Trustee shall promptly notify the City and the Authority of such fact and the Trustee shall promptly (A)(i) withdraw the amount of such insufficiency from available Senior Revenues on deposit in the Senior Bonds Payment Fund, and (ii) transfer such amount to the Common Senior Bonds Reserve Fund or applicable Separate Senior Bonds Reserve Fund or (B) withdraw an amount necessary to repay such drawing on the Surety Bond and related expenses. Repayment of draws, expenses and accrued interest (collectively, "Policy Costs") shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw.

(f) Amounts in deposit in the Common Senior Bonds Reserve Fund shall secure and shall be used solely for the purpose of paying the principal of and interest on Common Senior Reserve Fund Bonds and amounts on deposit in a Separate Senior Bonds Reserve Fund shall secure and shall be used solely for the purpose of paying the principal of and interest on Senior Bonds specified in the Supplemental Indenture as secured by such Separate Senior Bonds Reserve Fund.

(g) In any case where any Common Senior Reserve Fund or Separate Senior Bonds Reserve Fund is funded in whole or in part with a Surety Bond, the Authority acknowledges that the rating on such Surety Bond may change after the date such Surety Bond is purchased or issued. In no event shall the City or the Authority by required to replace such Surety Bond initially delivered under the Indenture with a similar instrument or with cash.

Note: No debt service reserve fund will be created or funded to secure the 2018 Bonds. Debt service reserve funds were created in connection with the issuance of the 2009A Bonds, 2009B Bonds, 2010A Bonds and 2012A Bonds and under the funding agreements for the SRF loans. Amounts on deposit in, or to be on deposit in, such debt service reserve funds are not available to secure the 2018 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – No Debt Service Reserve Fund for 2018 Bonds" in this Official Statement.

Revenues

Pledge of Subordinated Revenues.

(a) All Subordinated Revenues and amounts on deposit in the Subordinated Bonds Payment Fund and the Subordinated Bonds Reserve Fund (if deemed applicable to a Series of Subordinated Bonds) are, as provided in the Indenture, irrevocably pledged to the payment of the interest on and principal of the Subordinated Bonds but only as provided in the Indenture, and the Subordinated Revenues shall not be used for any other purpose while any of the Subordinated Bonds remain Outstanding; provided, that out of the Subordinated Revenues there may be allocated such sums for such purposes as are expressly permitted by the Indenture as summarized herein under the caption "Indenture – Revenues – Maintenance of Accounts for Use of Money in the Subordinated Bonds Payment Fund."

No debt service reserve fund will be created or funded to secure the 2018 Bonds. Debt service reserve funds were created in connection with the issuance of the 2009A Bonds, 2009B Bonds, 2010A Bonds and 2012A Bonds and under the funding agreements for the SRF loans. Amounts on deposit in, or to be on deposit in, such debt service reserve funds are not available to secure the 2018 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – No Debt Service Reserve Fund for 2018 Bonds" in this Official Statement.

(b) The Trustee shall be entitled to and shall receive all of the Subordinated Installment Payments pledged to secure any Subordinated Bond, and any such Subordinated Installment Payments

collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as agent of the Trustee and shall forthwith be paid by the Authority to the Trustee.

Receipt and Deposit of Revenues in the Subordinated Bonds Payment Fund. To carry out and effectuate the pledge contained in the Indenture, the Authority agrees and covenants that all Subordinated Revenues when and as received shall be received in trust under the Indenture for the benefit of the Owners and shall be deposited when and as received in the Subordinated Bonds Payment Fund. All Subordinated Revenues shall be accounted for through and held in trust in the Subordinated Bonds Payment Fund, and the Authority shall have no beneficial right or interest in any of the Subordinated Revenues except only as provided in the Indenture. All Subordinated Revenues, whether received by the Authority in trust or deposited with the Trustee as provided in the Indenture, shall nevertheless be allocated, applied and disbursed solely to the purposes and uses set forth in the Indenture, and shall be accounted for separately and apart from all other accounts, funds, money or other assets of the Authority.

Maintenance of Accounts for Use of Money in the Subordinated Bonds Payment Fund.

(a) In accordance with the Indenture, all money in the Subordinated Bonds Payment Fund shall be deposited by the Trustee in the following respective special accounts within the Subordinated Bonds Payment Fund (each of which the Trustee has covenanted and agreed to maintain under the Indenture) in the following order of priority:

(i) Subordinated Bonds Interest Account,

(ii) Subordinated Bonds Principal Account, and

(iii) Subordinated Bonds Redemption Account.

All money in each of such Accounts shall be held in trust by the Trustee and shall be applied, used and withdrawn only for the purposes as summarized hereinafter in this section and under the Indenture.

(b) Except to the extent that payment is made of interest on the 2017 Commercial Paper Notes from the proceeds of 2017 Commercial Paper Notes or the proceeds of a Draw under the related Subordinated Credit Support Instrument, on or before each Interest Payment Date, the Trustee shall transfer from the Subordinated Bonds Payment Fund and deposit in the Subordinated Bonds Interest Account that amount of money that, together with any money contained in the Subordinated Bonds Interest Account, equals the aggregate amount of interest becoming due and payable on all Outstanding Subordinated Bonds on such Interest Payment Date. No deposit need be made in the Subordinated Bonds Interest Account if the amount contained in the Subordinated Bonds Interest Account equals at least the aggregate amount of interest becoming due and payable on all Outstanding Subordinated Bonds on such Interest Payment Date; provided that the Authority may direct the Trustee to maintain amounts in the Subordinated Bonds Interest Account following payment of all amounts required to be paid under the Indenture to be used for payments on the 2017 Commercial Paper Notes on future Interest Payment Dates, and in such instance, such additional amount shall not be included as amounts available to pay interest becoming due and payable on Outstanding Subordinated Bonds. All money in the Subordinated Bonds Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Subordinated Bonds as it shall become due and payable (including accrued interest on any Subordinated Bonds redeemed prior to maturity).

(c) Except to the extent that payment is made of the principal of the 2017 Commercial Paper Notes from the proceeds of 2017 Commercial Paper Notes or the proceeds of a Draw under the related

Subordinated Credit Support Instrument, on or before each Principal Payment Date, the Trustee shall transfer from the Subordinated Bonds Payment Fund and deposit in the Subordinated Bonds Principal Account that amount of money that, together with any money contained in the Subordinated Bonds Principal Account, equals the aggregate principal becoming due and payable on all Outstanding Subordinated Bonds. No deposit need be made in the Subordinated Bonds Principal Account if the amount contained therein is at least equal to the aggregate amount of principal become due and payable on Outstanding Subordinated Bonds. All money in the Subordinated Bonds Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Subordinated Bonds as it shall become due and payable.

(d) In addition to the above accounts, the Trustee shall establish and maintain within the Subordinated Bonds Payment Fund a special account designated the "Subordinated Bonds Redemption Account." All money in the Subordinated Bonds Redemption Account shall be held in trust by the Trustee and shall be applied, used, and withdrawn to redeem Subordinated Bonds for the purposes authorized in this subsection (d). Any moneys that, pursuant to the terms for prepayment of Installment Payments pursuant to the Master Installment Purchase Agreement and the related provisions of any Supplements, are to be used to redeem Subordinated Bonds shall be deposited by the Trustee in the Redemption Account. The Trustee shall, on the scheduled redemption date, withdraw from the Subordinated Bonds Redemption Account and pay the Owners entitled thereto an amount equal to the redemption price of the Subordinated Bonds to be redeemed on such date.

(e) Any delinquent Subordinated Installment Payments pledged to the Subordinated Bonds shall be applied first to the Subordinated Bonds Interest Account for the immediate payment of interest payments past due and the to the Subordinated Bonds Principal Account for immediate payment of principal payments past due on any Subordinated Bond. Any remaining money representing delinquent Subordinated Installment Payments pledged to Subordinated Bonds shall be deposited in the Subordinated Bonds Payment Fund to be applied in the manner provided therein.

(f) On or before each date any 2017 Commercial Paper Note matures, the Trustee shall transfer from the Subordinated Bonds Payment Fund to the Issuing and Paying Agent for deposit in the applicable Reimbursement Account that amount of money that equals the aggregate amount of interest or principal becoming due and payable on the 2017 Commercial Paper Notes to the extent that payment of such interest on or principal of the 2017 Commercial Paper Notes is not made from the proceeds of 2017 Commercial Paper Notes but is made from the proceeds of a Draw under the related Subordinated Credit Support Instrument. On or before each date any related Subordinated Credit Provider Reimbursement Obligations become due and payable, the Trustee shall transfer from the Subordinated Bonds Payment Fund and deposit in the applicable Reimbursement Account that amount of money that, together with any amounts transferred pursuant to the preceding sentence, equals the amount of any such Subordinated Credit Provider Reimbursement Obligations when due.

Pledge of Revenues.

(a) All Revenues and amounts on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Subordinated Bonds Payment Fund, the Subordinated Bonds Reserve Fund and the Rebate Fund created pursuant to the Indenture, and the Reserve Fund if not deemed applicable to a Series of Bonds) are, as provided in the Indenture, irrevocably pledged to the payment of the interest on and principal of the Senior Bonds as provided in the Indenture, and the Revenues shall not be used for any other purpose while any of the Senior Bonds remain Outstanding; provided, that out of the Revenues there may be allocated such sums for such purposes as are expressly permitted by the Indenture.

(b) To secure the pledge of the Revenues contained in this subheading, the Authority transfers, conveys and assigns to the Trustee, for the benefit of the Owners, all of the Authority's rights under the 2018 Supplement and, in connection with any Additional Bonds issued under the Indenture, the Authority's rights under the Supplement(s) executed by the City and the Corporation to secure payment of principal of and interest on such Additional Bonds, including the right to receive Installment Payments from the City, the right to receive any proceeds of insurance maintained thereunder or any condemnation award rendered with respect to the 2018 Components and the right to exercise any remedies provided therein in the event of a default by the City thereunder. The Trustee accepts said assignment for the benefit of the Owners subject to the provisions of the Indenture.

(c) The Trustee shall be entitled to and shall receive all of the 2018 Subordinated Installment Payments and, in connection with any Additional Bonds issued under the Indenture, the Installment Payments made by the City pursuant to the Supplement(s) executed by the City and the Corporation to secure payment of principal of and interest on such Additional Bonds, and any 2018 Subordinated Installment Payments and additional Installment Payments collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as agent of the Trustee and shall forthwith be paid by the Authority to the Trustee.

Receipt and Deposit of Revenues in the Payment Fund. To carry out and effectuate the pledge contained in the Indenture, the Authority agrees and covenants that all Revenues when and as received shall be received in trust under the Indenture for the benefit of the Owners and shall be deposited when and as received in the Payment Fund. All Revenues shall be accounted for through and held in trust in the Payment Fund, and the Authority shall have no beneficial right or interest in any of the Revenues except only as provided in the Indenture. All Revenues, whether received by the Authority in trust or deposited with the Trustee as provided in the Indenture, shall nevertheless be allocated, applied and disbursed solely to the purposes and uses set forth in the Indenture, and shall be accounted for separately and apart from all other accounts, funds, money, or other assets of the Authority.

Maintenance of Accounts for Use of Money in the Payment Fund.

(a) All money in the Payment Fund shall be deposited by the Trustee in the following respective special accounts within the Payment Fund in the following order of priority:

(i) Interest Account,

(ii) Principal Account, and

(iii) Redemption Account.

All money in each of such Accounts shall be held in trust by the Trustee and shall be applied, used and withdrawn only for the purposes authorized in the Indenture.

(b) On or before each Interest Payment Date, the Trustee shall transfer from the Payment Fund and deposit in the Interest Account that amount of money that, together with any money contained in the Interest Account, equals the aggregate amount of interest becoming due and payable on all Outstanding Senior Bonds on such on such Interest Payment Date. No deposit need be made in the Interest Account if the amount contained in the Interest Account equals at least the aggregate amount of interest becoming due and payable on all Outstanding Senior Bonds on such Interest Payment Date. All money in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Senior Bonds as it shall become due and payable (including accrued interest on any Senior Bonds redeemed prior to maturity).

(c) On or before each Principal Payment Date, the Trustee shall transfer from the Payment Fund and deposit in the Principal Account that amount of money that, together with any money contained in the Principal Account, equals the aggregate principal becoming due and payable on all Outstanding Senior Bonds. No deposit need be made in the Principal Account if the amount contained therein is at least equal to the aggregate amount of principal become due and payable on Outstanding Senior Bonds. All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Senior Bonds as it shall become due and payable.

(d) In addition to the above accounts, the Trustee shall establish and maintain within the Payment Fund a special account designated the "Redemption Account." All money in the Redemption Account shall be held in trust by the Trustee and shall be applied, used, and withdrawn either to redeem the Senior Bonds or for the purposes authorized in this subsection (d). Any moneys that, terms for prepayment of Installment Payments pursuant to the Master Installment Purchase Agreement and the related provisions of any Supplements, are to be used to redeem Senior Bonds shall be deposited by the Trustee in the Redemption Account. The Trustee shall, on the scheduled redemption date, withdraw from the Redemption Account and pay the Owners entitled thereto an amount equal to the redemption price of the Senior Bonds to be redeemed on such date.

(e) Any delinquent Installment Payments pledged to the Senior Bonds shall be applied first to the Interest Account for the immediate payment of interest payments past due and the to the Principal Account for immediate payment of principal payments past due on any Senior Bond. Any remaining money representing delinquent Installment Payments pledged to Senior Bonds shall be deposited in the Payment Fund to be applied in the manner provided therein.

Investment of Moneys in Funds and Accounts. Investment of Moneys in Funds and Accounts. Moneys in the Acquisition Fund shall be accounted for by the Comptroller and invested by the Treasurer in any legally permitted investment, including but not limited to the pooled investment fund of the City. In the absence of a Written Request of the City, the Trustee may invest moneys in the funds and accounts held by the Trustee in Permitted Investments described in clause (10) of the definition of Permitted Investments. The obligations in which moneys in the said funds and accounts are invested shall mature prior to the date on which such moneys are estimated to be required to be paid out under the Indenture. For purposes of determining the amount of deposit in any fund or account held under the Indenture, all investments credited to such fund or account shall be valued at the lesser of market value or the cost thereof. The Trustee shall semiannually, on the first (1st) calendar day of the month preceding the Interest Payment dates, and at such times as the Authority shall deem appropriate, value the investments in the funds and accounts under the Indenture on the basis of the lesser of market value or the cost thereof based on accepted industry standards from accepted industry providers. Except as otherwise provided in this section, Permitted Investments representing an investment of moneys attributable to any fund or account under the Indenture and all investment profits or losses thereon shall be deemed at all times to be a part of said fund or account.

Additional Bonds

Execution and Delivery of Additional Bonds. The Trustee shall, upon Written Request of the Authority, by a supplement to the Indenture, establish one or more other series of Bonds secured by the pledge made under the Indenture equally and ratably with any Senior Bonds previously issued and delivered (if such Bonds are to be Senior Bonds) or equally and ratably with any Subordinated Bonds (if such Bonds are to be Subordinated Bonds), in such principal amount as shall be determined by the Authority, but only upon compliance with the provisions of the Indenture, the requirements of the Master Installment Purchase Agreement applicable to the incurrence of Parity Obligations (if such Bonds are to be Senior Bonds) or Subordinated Obligations (if such Bonds are Subordinated Bonds) and any additional

requirements set forth in the applicable Supplemental Indenture, which are, as provided in the Indenture, made conditions precedent to the execution and delivery of Additional Bonds:

(a) No Event of Default shall have occurred and be then continuing;

(b) The Supplemental Indenture providing for the execution and delivery of such Additional Bonds shall specify the purposes for which such Additional Bonds are then proposed to be delivered, which shall be one or more of the following: (i) to provide moneys needed to provide for Project Costs by depositing into the Acquisition Fund the proceeds of such Additional Bonds to be so applied; (ii) to provide for the payment or redemption of Bonds then Outstanding under the Indenture, by depositing with the Trustee moneys and/or investments required for such purpose under the defeasance provisions set forth in the Indenture; or (iii) to provide moneys needed to refund or refinance all or part of any other current or future obligations of the City with respect to the funding of the Water System. Such Supplemental Indenture may, but shall not be required to, provide for the payment of expenses incidental to such purposes, including the Costs of Issuance of such Additional Bonds, capitalized interest with respect thereto for any period authorized under the Code (in the case of Tax-Exempt Bonds) and, in the case of any Additional Bonds intended to provide for the payment or redemption of existing Bonds, or other Obligations of the City, expenses incident to calling, redeeming, paying or otherwise discharging the Obligations to be paid with the proceeds of the Additional Bonds;

(c) The Supplemental Indenture providing for the execution and delivery of such Additional Bonds shall state whether such Additional Bonds shall be Senior Bonds or Subordinated Bonds;

(d) If such Additional Bonds are Subordinated Bonds, the Supplemental Indenture shall specify whether such Additional Bonds shall be secured by the Common Subordinated Bonds Reserve Fund, a Separate Subordinated Bonds Reserve Bonds or no reserve fund;

(e) Prior to the Amendment Effective Date, if such Additional Bonds are Senior Bonds, the Authority shall deliver or cause to be delivered to the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount (or a Surety Bond in an amount) sufficient to increase the balance in the Reserve Fund established for the Senior Bonds to the applicable Reserve Fund Requirement;

(f) After the Amendment Effective Date, if such Additional Bonds are Common Senior Reserve Fund Bonds, the Authority shall deliver or cause to be delivered by the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount sufficient to increase the balance of the Common Senior Bonds Reserve Fund to the Common Senior Bonds Reserve Fund Requirement;

(g) After the Amendment Effective Date, if such Additional Bonds are Senior Bonds to be secured by a Separate Senior Bonds Reserve Fund, the Authority shall deliver or cause to be delivered by the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount (or a Surety Bond in an amount) sufficient to increase the balance in such Separate Senior Bonds Reserve Fund to the Separate Senior Bonds Reserve Fund for such Series of Senior Bonds;

(h) If such Additional Bonds are Common Subordinated Reserve Fund Bonds, the Authority shall deliver or cause to be delivered by the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount sufficient to increase the balance of the Common Subordinated Bonds Reserve Fund to the Common Subordinated Bonds Reserve Fund Requirement;

(i) If such Additional Bonds are Subordinated Bonds to be secured by a Separate Subordinated Bonds Reserve Fund, the Authority shall deliver or cause to be delivered by the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount (or a Surety Bond in an amount) sufficient to increase the balance in such Separate Subordinated Bonds Reserve Fund to the Separate Subordinated Bonds Reserve Fund for such Series of Subordinated Bonds;

(j) The Additional Bonds shall be payable as to principal on such dates as shall be provided for in the Supplemental Indenture, except that the first interest payment due with respect thereto may be for a period of not longer than twelve (12) months;

(k) Fixed serial maturities or mandatory sinking account payments, or any combination thereof, shall be established in amounts sufficient to provide for the retirement of all of the Additional Bonds of such Series on or before their respective maturity dates;

(l) The aggregate principal amount of Bonds and Additional Bonds executed and delivered under the Indenture shall not exceed any limitation imposed by law or by any Supplemental Indenture; and

(m) The Trustee shall be the Trustee for the Additional Bonds.

Nothing in the Indenture shall limit in any way the power and authority of the Authority to incur other obligations payable from other lawful sources.

Covenants of Authority

Punctual Payment and Performance. The Authority shall punctually pay the interest and the principal to become due on every Bond issued under the Indenture in strict conformity with the terms of the Indenture and of the Bonds, and shall faithfully observe and perform all the agreements and covenants contained therein.

Rebate Fund.

(a) The Trustee shall maintain such accounts within the Rebate Fund as it is instructed by the Authority as shall be necessary in order to comply with the applicable Tax Certificate (which is incorporated in the Indenture by reference). The Trustee shall deposit moneys in the Rebate Fund made available by the Authority and/or the City pursuant to a Written Request of the City. All money at any time deposited in the Rebate Fund shall be governed by the Indenture and the Tax Certificate and shall be held by the Trustee in trust, to the extent required to satisfy the amount required to be rebated to the United States under the Code, and none of the City, the Corporation, Authority, the Trustee, or the Owners shall have any rights in or claims to such money. The Trustee shall make information regarding the investments under the Indenture available to the City, shall invest the Rebate Fund in Permitted Investments pursuant to a Written Request of the City that is in conformity with the restrictions set forth in the Tax Certificate and shall deposit income from such Permitted Investments immediately upon receipt thereof into the Rebate Fund. The Trustee agrees to comply with all Written Requests of the City given in accordance with the Tax Certificate.

(b) The City and the Authority shall make or cause to be made the rebate computations respecting all Outstanding Bonds in accordance with the Tax Certificate, as required by the Code, and shall provide to the Trustee written evidence that the computation of the rebate requirement has been made along with a letter from an independent certified public accountant or arbitrage consultant verifying

the accuracy of such calculations. Upon a Written Request of the City, the Trustee shall make deposits into the Rebate Fund from deposits by the City so that the balance of the amount on deposit shall be equal to the rebate requirement. The Trustee shall have no obligation to rebate any amounts required to be rebated pursuant to the Indenture, other than from moneys held in the Rebate Fund or from other moneys provided to it by the City on behalf of itself or the Authority.

(c) Not later than sixty (60) days after the end of the fifth Bond Year as defined in the Tax Certificate and every five (5) years thereafter, the Trustee, upon receipt of a Written Request of the City, shall pay to the United States part or all of the amounts in the Rebate Fund, as so directed. Each payment shall be accompanied by a statement summarizing the determination of the amount to be paid to the United States, as provided by the City. In addition, if the City so directs, then the Trustee shall deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as directed by the Written Request of the City. Any amounts remaining in the Rebate Fund following the final payment of the rebate requirement shall be paid to the City. Money, including investment earnings, shall not be transferred from the Rebate Fund except as provided in the Indenture.

(d) Notwithstanding any other provision the Indenture, the obligation to remit the rebate requirement to the United States and to comply with all other requirements of the Indenture and the Tax Certificate shall survive the defeasance or payment in full of the Tax-Exempt Bonds.

(e) The Authority shall not use or permit any proceeds of the Tax-Exempt Bonds or any funds of the Authority, directly or indirectly, to acquire any securities or obligations, and shall not take or permit to be taken any other action or actions, that would cause any Tax-Exempt Bonds to be an "arbitrage bond" within the meaning of the Code or "federally guaranteed" within the meaning of Section 149(b) of the Code and any applicable regulations promulgated from time to time thereunder and under Section 103(c) of the Code. The Authority shall observe and not violate the requirements of Section 148 of the Code and any such applicable regulations. The Authority shall comply with all requirements of Sections 148 and 149(b) of the Code to the extent applicable to the Tax-Exempt Bonds.

(f) The Authority specifically covenants to comply with the provisions and procedures of the Tax Certificate.

(g) The Authority shall not use or permit the use of any proceeds of the Bonds or any funds of the Authority, directly or indirectly, in any manner, and shall not take or omit to take any action that would cause any Tax-Exempt Bonds to be treated as an obligation not described in Section 103(a) of the Code.

(h) Notwithstanding any provisions of the Indenture, if the Authority and the City shall provide to the Trustee an opinion of Bond Counsel to the effect that any specified action required under the Indenture is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest with respect to the Tax-Exempt Bonds, the Trustee, the Authority and the City may conclusively rely on such opinion in complying with the requirements of the Indenture and the covenants under the Indenture shall be deemed to be modified to that extent.

Accounting Records and Reports. The Authority shall keep or cause to be kept proper books of record and accounts in which complete and correct entries shall be made of all transactions relating to the receipts, disbursements, allocation and application of the Revenues and the Subordinated Revenues, and such books shall be available for inspection by the Trustee, at reasonable hours and under reasonable conditions. Not more than 270 days after the close of each Fiscal Year, the Authority shall furnish or cause to be furnished to the Trustee financial statements that include the Water Utility Fund for the

preceding Fiscal Year, prepared in accordance with generally accepted accounting principles, together with a report of an Independent Certified Public Accountant thereon. For purposes of this section, "financial statement" shall mean audited financial statements, if available, or unaudited financial statements, if audited financial statements are not available and unaudited financial statements are available. The Authority shall also keep or cause to be kept such other information as is required under the Tax Certificate.

The City's Budgets. The Authority shall supply to the Trustee, as soon as practicable after the beginning of each Fiscal Year following the effectiveness of the applicable City ordinance but in no event later than six months from the date of effectiveness of such ordinance, a Certificate of the City certifying that the City has made adequate provision in its annual budget for such Fiscal Year for the payment of all Parity Installment Payments, Subordinated Installment Payments, and all other Obligations due under the Master Installment Purchase Agreement in such Fiscal Year. If the amounts so budgeted are not adequate for the payment of all Parity Installment Payments, Subordinated Installment Payments, and all other Obligations due under the Master Installment Purchase Agreement in such Fiscal Year, the Authority shall take such action as may be necessary and within its power to request such annual budget to be amended, corrected, or augmented by the City so as to include therein the amounts required to be paid by the City from Net System Revenues in such Fiscal Year, and shall notify the Trustee of the proceedings then taken or proposed to be by the Authority.

Amendment of Indenture

Amendment of Indenture.

(a) The Indenture and-the rights and obligations of the Authority and of the all Owners of the Bonds may be amended at any time by a Supplemental Indenture, which shall become binding when the written consents of the Owners of 51% in aggregate principal amount of the Senior Bonds then Outstanding and the written consents of the Owner of 51% in aggregate principal amount of the Subordinated Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture, are filed with the Trustee. No such amendment shall (i) permit the creation by the Authority of any pledge of the Revenues or Subordinated Revenues as provided in the Indenture superior to or on a parity with the pledge created under the Indenture for the benefit of any Bond without the written consent of the Owner thereof; (ii) modify any rights or obligations of the Trustee without its prior written assent thereto; or (iii) modify provisions respecting the time or amount of payments on any Bond, without the written consent of the Owner thereof.

(b) The Indenture and the rights and obligations of the Authority and of the Owners may also be amended at any time by a Supplemental Indenture, which shall become binding without the consent of any Owners of Bonds for any one or more of the following purposes:

(i) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Indenture in regard to questions arising under the Indenture that the Authority may deem desirable or necessary and not inconsistent with the Indenture and that shall not adversely affect the interests of the Owners; or

(ii) to make any other change or addition thereto that shall not materially adversely affect the interests of the Owners, or to surrender any right or power reserved in the Indenture to or conferred in the Indenture on the Authority; provided, however, that the Owners shall be given prompt notice of any such amendment and shall receive a copy of the final executed Supplemental Indenture making such changes.

Disqualified Bonds. Bonds owned or held by or for the account of the Authority or the City shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided in the Indenture, and shall not be entitled to consent to or take any other action provided therein.

Endorsement or Replacement of Bonds After Amendment. After the effective date of any action taken as described above, the Authority may determine that the Bonds may bear a notation by endorsement in form approved by the Authority as to such action, and in that case upon demand of the Owner of any Outstanding Bond and presentation of its Bond for such purpose at the Corporate Trust Office of the Trustee, a suitable notation as to such action shall be made on such Bond. If the Authority shall determine that a Bond shall bear such a notation by endorsement pursuant to the Indenture, a new Bond so modified shall be prepared and executed, and upon demand of the Owner of any Outstanding Bond, such new Bond shall be exchanged at the Corporate Trust Office of the Trustee without cost to such Owner upon surrender of such Bond.

Amendment by Mutual Consent. The provisions of the Indenture shall not prevent any Owner from accepting any amendment as to the particular Bonds owned by him, provided that due notation thereof is made on such Bonds.

Events of Default and Remedies of Holders

Events of Default and Acceleration of Maturities.

(a) The following events shall constitute events of default under the Indenture:

(i) failure in the due and punctual payment of the interest on the Bonds when and as the same shall become due and payable;

(ii) failure in the due and punctual payment of the principal of the Bonds when and as the same shall become due and payable, whether at maturity as therein expressed or by proceedings for redemption;

(iii) failure by the Authority in the performance of any of the other agreements or covenants required in the Indenture to be performed by the Authority, as set forth in the Indenture, and such default shall have continued for a period of 30 days after the Authority and the City shall have been given notice in writing of such default by the Trustee or to the Authority, the City and the Trustee by Owners of 25% or more of the aggregate principal amount of the Bonds then Outstanding; or

(iv) if any event of default shall have occurred and be continuing under the Master Installment Purchase Agreement; or

(v) if the Authority shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property.

(b) If one or more Events of Default shall occur, then and in each and every such case during the continuance of such Event of Default, the Trustee may by notice in writing to the Authority and the City, declare the principal of all Bonds then Outstanding and the interest accrued thereon to be due and

payable immediately. Upon any such declaration, the same shall become due and payable, anything contained in the Indenture or in the Bonds to the contrary notwithstanding. These provisions are subject to the condition that if at any time after the entire principal amount of the unpaid Bonds and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, there shall be deposited with the Trustee a sum sufficient to pay the unpaid principal amount of the Bonds due prior to such declaration and the accrued interest thereon, with interest on such overdue installments at the rate or rates applicable thereto in accordance with their terms, and the reasonable fees and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment the entire principal amount of the unpaid Bonds and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then and in every such case the Trustee, by written notice to the City and the Authority, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Proceedings by Trustee. Upon the occurrence and continuance of any Event of Default, the Trustee in its discretion may, and at the written request of Owners of 51% or more in aggregate principal amount of Bonds Outstanding shall (but only to the extent indemnified to its satisfaction from fees and expenses, including attorneys fees), do the following:

(a) by mandamus, or other suit, action, or proceeding at law or in equity, enforce all rights of the Owners and require the Authority to enforce all rights of the Owners of the Bonds, including the right to require the Authority to receive and collect Revenues and to enforce its rights under the Master Installment Purchase Agreement and to require the Authority to carry out any other covenant or agreement with Owners of Bonds and to perform its duties under the Indenture;

(b) bring suit upon the Bonds;

(c) by action or suit in equity enjoin any acts or things that may be unlawful or in violation of the rights of the Owners; and

(d) as a matter of right, have receivers appointed for the Revenues and the issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer.

Limitation on Rights and Remedies of Holders of Subordinated Bonds. So long as any Senior Bonds remain outstanding, no Owners of Subordinated Bonds shall have the right to declare an Event of Default, to declare any Bonds immediately due and payable, to direct the Trustee with respect to any Event of Default or to waive any Event of Default and, for such purposes, any reference to the Owners of a percentage of the principal amount of "Bonds then Outstanding" shall be deemed to refer to the Owners of such percentage of Senior Bonds then Outstanding.

Effect of Discontinuance or Abandonment. In case any proceeding taken by the Trustee on account of any default or Event of Default shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then and in every such case, the Authority, the Trustee, and the Owners shall be restored to their former positions and rights under the Indenture, respectively, and all rights, remedies and powers of the Trustee shall continue as though no such proceeding had been taken.

Rights of Owners.

(a) Anything in the Indenture to the contrary notwithstanding and subject to the limitations and restrictions as to the rights of the Owners in the Indenture, upon the occurrence and continuance of any Event of Default or the Owners of 51% or more in aggregate principal amount of the Bonds then Outstanding shall have the right upon providing the Trustee security and indemnity reasonably satisfactory to it against the costs, expenses, and liabilities to be incurred therein or thereby, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Indenture.

(b) The Trustee may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is prejudicial to rights of other Owners or would subject the Trustee to personal liability.

Restrictions on Owners' Actions.

(a) In addition to the other restrictions on the rights of Owners to request action upon the occurrence of an Event of Default and to enforce remedies set forth in the Indenture, no Owner of any of the Bonds shall have any right to institute any suit, action, or proceeding in equity or at law for the enforcement of any trust under the Indenture, or any other remedy under the Indenture or on said Bonds, unless:

(i) such Owner previously shall have given to the Trustee written notice of an Event of Default as provided in the Indenture; and

(ii) the Owners of 51% or more in aggregate principal amount of the Bonds then Outstanding shall have made written request of the Trustee to institute any such suit, action, proceeding, or other remedy, after the right to exercise such powers or rights of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted in the Indenture, or to institute such action, suit or proceeding in its or their name; and

(iii) there shall have been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses, and liabilities to be incurred therein or thereby; and

(iv) the Trustee shall not have complied with such request within a reasonable time.

(b) Such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the trusts of the Indenture or for any other remedy under the Indenture. It is understood and intended, subject to the Indenture, that no one or more Owners of the Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right under the Indenture or under the Bonds, except in the manner therein provided, and that all proceedings at law or in equity shall be instituted, and maintained in the manner therein provided, and for the equal benefit of all Owners of Outstanding Bonds.

Power of Trustee to Enforce. All rights of action under the Indenture or under any of the Bonds secured by the Indenture that are enforceable by the Trustee may be enforced by it without the possession of any of the Bonds, or the production thereof at the trial or other proceedings relative thereto. Any such suit, action, or proceedings instituted by the Trustee shall be brought in its own name, as Trustee, for the equal and ratable benefit of the Owners of the Bonds, subject to the provisions of the Indenture.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative, and shall be in addition to every other remedy given under the Indenture or now or hereafter existing at law or in equity or by statute.

Waiver of Events of Default; Effect of Waiver.

(a) The Trustee shall waive any Event of Default under the Indenture and its consequences and rescind any declaration of acceleration, upon the written request of the Owners of 67% or more of the Outstanding Bonds. If any Event of Default shall have been waived as provided in the Indenture, the Trustee shall promptly give written notice of such waiver to the Authority and shall give notice thereof by first class mail, postage prepaid to all Owners of Outstanding Bonds if such Owners had previously been given notices of such Event of Default. No such waiver, rescission and annulment shall extend to or affect any subsequent Event of Default, or impair any right or remedy consequent thereon.

(b) No delay or omission of the Trustee or any Owner of the Bonds to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or an acquiescence therein. Every power and remedy given by the Indenture to the Trustee or the Owners of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Application of Moneys.

(a) Any moneys received by the Trustee pursuant to the Indenture, together with any moneys that upon the occurrence of an Event of Default are held by the Trustee in any of the funds and accounts under the Indenture (other than the Rebate Fund and other than moneys held for Bonds not presented for payment) shall, after payment of all fees and expenses of the Trustee, and the fees and expenses of its counsel, be applied as follows:

(i) Unless the principal of all of the Outstanding Bonds shall be due and payable:

First – To the payment of the Owners of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the Owners, without any discrimination or privilege;

Second - To the payment of the Owners of the unpaid principal of any of the Bonds that shall have become due (other than Bonds matured or called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates and, if the amount available shall not be sufficient to pay in full the principal of and premium, if any, on such Bonds due on any particular date, then to the payment ratably, according to the amount due on such date, to the Owners without any discrimination; and

Third – To be held for the payment to the Owners as the same shall become due of the principal of and interest on the Bonds, that may thereafter become due either at maturity or upon call for redemption prior to maturity and, if the amount available shall not be sufficient to pay in full such principal and premium, if any, due on any particular date, together with interest then due and owing thereon, payment shall be made in accordance with the Indenture.

(ii) If the principal of all of the Outstanding Bonds shall be due and payable, to the payment of the principal and interest then due and unpaid upon the Outstanding Bonds without preference or priority of any of principal, or interest over the others or of any installment of interest, or of any Outstanding Bond over any other Outstanding Bond, ratably, according to the amounts due respectively for principal and interest, to the Owners without any discrimination or preference except as to any difference in the respective amounts of interest specified in the Outstanding Bonds.

(b) Whenever moneys are to be applied pursuant to the provisions of the Indenture, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The Trustee shall give, by mailing by first-class mail as it may deem appropriate, such notice of the deposit with it of any such moneys.

Defeasance

If the Authority shall pay or cause to be paid to the Owners of all Outstanding Bonds the interest thereon and the principal thereof and the premiums, if any, thereon at the times and in the manner stipulated therein, then the Owners of such Bonds shall cease to be entitled to the pledge of the Revenues as provided in the Indenture, and all agreements, covenants and other obligations of the Authority to the Owners of such Bonds shall cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the Authority all money or securities or other property held by it pursuant to the Indenture that are not required for the payment of the interest on and principal of and redemption premiums, if any, on such Bonds.

Subject to the provisions of the above paragraph, when any of the Bonds shall have been paid and if, at the time of such payment, the Authority shall have kept, performed and observed all the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by the Authority or on its part on or prior to that time, then the Indenture shall be considered to have been discharged in respect of such Bonds and such Bonds shall cease to be entitled to the lien of the Indenture and such lien and all agreements, covenants, and other obligations of the Authority therein shall cease, terminate, and become void and be discharged and satisfied as to such Bonds.

Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost, or stolen Bonds, the safekeeping and cancellation of Bonds, nonpresentment of Bonds, and the duties of the Trustee in connection with all of the foregoing, remain in effect and shall be binding upon the Trustee and the Owners of the Bonds and the Trustee shall continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal of, redemption premium, if any, and interest on the Bonds, to pay to the Owners of Bonds the funds so held by the Trustee as and when such payment becomes due. Notwithstanding the satisfaction and discharge of the Indenture or the discharge thereof in respect of any Bonds, those provisions of the Indenture relating to the compensation of the Trustee shall remain in effect and shall be binding upon the Trustee and the Authority.

Any Outstanding Bonds shall prior to the maturity date or redemption date thereof be deemed to have been paid for purposes of the Indenture if: (i) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Authority shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of the Indenture, notice of

redemption of such Bonds on said redemption date, said notice to be given in accordance with the Indenture; (ii) there shall have been deposited with the Trustee either (A) money in an amount that shall be sufficient; or (B) Federal Securities of which are not subject to redemption prior to maturity except by the holder thereof (including any such Permitted Investments issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) and/or Pre-Refunded Municipals, the interest on and principal of which when due, and without any reinvestment thereof, will provide money that, together with the money, if any, deposited with the Trustee at the same time, shall, as verified by an independent certified public accountant or other independent financial consultant acceptable to the Trustee, be sufficient, to pay when due the interest to become due on such Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and interest on such Bonds; and; (iii) in the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Owners of such Bonds and to the Securities Depositories and the Information Services that the deposit required by clause (ii) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the Indenture and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and interest on such Bonds.

Governing Law

The Indenture will be governed by the laws of the State of California applicable to contracts made and performed in the State.

MASTER INSTALLMENT PURCHASE AGREEMENT

Selected Definitions.

Accountant's Report

The term "Accountant's Report" means a report signed by an Independent Certified Public Accountant.

Adjusted Debt Service

The term "Adjusted Debt Service" means, for any Fiscal Year, Debt Service on Parity Obligations for such Fiscal Year, minus an amount equal to earnings from investments in any Reserve Fund securing Parity Obligations for such Fiscal Year.

Adjusted Net System Revenues

The term "Adjusted Net System Revenues" means, for any Fiscal Year, the Net System Revenues for such Fiscal Year, minus an amount equal to earnings from investments in any Reserve Fund securing Parity Obligations for such Fiscal Year.

Authorizing Ordinance

The term "Authorizing Ordinance" means the ordinance pursuant to which the Master Installment Purchase Agreement was authorized and any additional ordinance or official authorizing act of the council of the City approving execution and delivery of any Supplement to the Master Installment Purchase Agreement or any Issuing Instrument.

Balloon Indebtedness

The term "Balloon Indebtedness" means, with respect to any Series of Obligations twenty-five percent (25%) or more of the principal of which matures on the same date or within a 12-month period (with sinking fund payments on Term Obligations deemed to be payments of matured principal), that portion of such Series of Obligations which matures on such date or within such 12-month period; provided, however, that to constitute Balloon Indebtedness the amount of indebtedness maturing on a single date or over a 12-month period must equal or exceed 150% of the amount of such Series of Obligations which matures during any preceding 12-month period. For purposes of this definition, the principal amount maturing on any date shall be reduced by the amount of such indebtedness which is required, by the documents governing such indebtedness, to be amortized by prepayment or redemption prior to its stated maturity date.

Capacity Charge

The term "Capacity Charge" means a charge imposed upon a person, firm, corporation or other entity incident to the granting of a permit for a new water connection or due to an increase in water usage by the addition of any type of dwelling, commercial or industrial unit, which charge is based upon an increase in water consumption as measured by equivalent dwelling units, and the proceeds of which are used to construct, improve and expand the Water System to accommodate the additional business of such added dwellings or commercial or industrial units.

Consultant

The term "Consultant" means the consultant, consulting firm, engineer, architect, engineering firm, architectural firm, accountant, or accounting firm retained by the City to perform acts or carry out the duties provided for such consultant in the Master Installment Purchase Agreement. Such consultant, consulting firm, engineer, architect, engineering firm, or architectural firm shall be nationally recognized within its profession for work of the character required. Such accountants or accounting firm shall be independent certified public accountants licensed to practice in the State.

Credit Provider

The term "Credit Provider" means any municipal bond insurance company, bank, or other financial institution or organization which is performing in all material respects its obligations under any Credit Support Instrument for some or all of the Parity Obligations.

Credit Provider Reimbursement Obligations

The term "Credit Provider Reimbursement Obligations" means obligations of the City to repay from Net System Revenues, amounts advanced by a Credit Provider as credit support or liquidity for Parity Obligations, which obligations shall constitute Parity Obligations or Subordinated Obligations, as designated by the City.

Credit Support Instrument

The term "Credit Support Instrument" means a policy of insurance, a letter of credit, a standby purchase agreement, revolving credit agreement or other credit arrangement pursuant to which a Credit Provider provides credit support or liquidity with respect to the payment of interest, principal, or the purchase price of any Parity Obligations.

Debt Service

With regard to the issuance of Parity Obligations, the term "Debt Service" means, for any Fiscal Year, the sum of (a) the interest payable during such Fiscal Year on all Outstanding Parity Obligations, assuming that all Outstanding Serial Parity Obligations are retired as scheduled and that all Outstanding Term Parity Obligations are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Parity Obligations), (b) that portion of the principal amount of all Outstanding Serial Parity Obligations maturing on the next succeeding principal payment date which falls in such Fiscal Year (excluding Serial Obligations which at the time of issuance are intended to be paid from the sale of a corresponding amount of Parity Obligations), (c) that portion of the principal amount of all Outstanding Term Parity Obligations required to be redeemed or paid on any redemption date which falls in such Fiscal Year (together with the redemption premiums, if any, thereon); provided that, (1) as to any Balloon Indebtedness, Tender Indebtedness, and Variable Rate Indebtedness, interest thereon shall be calculated as provided in the definition of Maximum Annual Debt Service and principal shall be deemed due at the nominal maturity dates thereof; (2) the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of the Parity Obligations for which such debt service reserve fund was established and in each preceding year until such amount is exhausted; and (3) the amount of payments on account of Parity Obligations which are redeemed, retired, or repaid on the basis of the accreted value due on the scheduled redemption, retirement, or repayment date shall be deemed principal payments, and interest that is compounded and paid as part of the accreted value shall be deemed payable on the scheduled redemption, retirement, or repayment date, but not before.

With regard to the issuance of Subordinated Obligations, the term "Debt Service" means, for any Fiscal Year, the sum of (a) the interest payable during such Fiscal Year on all Outstanding Obligations, assuming that all Outstanding Serial Obligations are retired as scheduled and that all Outstanding Term Obligations are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Obligations), (b) that portion of the principal amount of all Outstanding Serial Obligations maturing on the next succeeding principal payment date which falls in such Fiscal Year (excluding Serial Obligations which at the time of issuance are intended to be paid from the sale of a corresponding amount of other Obligations) (c) that portion of the principal amount of all Outstanding Term Obligations required to be redeemed or paid on any redemption date which falls in such Fiscal Year (together with the redemption premiums, if any, thereon) provided that, (1) as to any Balloon Indebtedness, Tender Indebtedness, and Variable Rate Indebtedness, interest thereon shall be calculated as provided in the definition of Maximum Annual Debt Service and principal shall be deemed due at the nominal maturity dates thereof; (2) the amount on deposit in a Reserve Fund on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of the Obligations for which such Reserve Fund was established and in each preceding year, until such amount is exhausted; and (3) the amount of payments on account of Obligations which are redeemed, retired, or repaid on the basis of the accreted value due on the scheduled redemption, retirement, or repayment date shall be deemed principal payments, and interest that is compounded and paid as part of the accreted value thereof shall be deemed payable on the scheduled redemption, retirement, or repayment date, but not before.

Default Rate

The term "Default Rate" means the Maximum Rate.

Defaulted Obligations

The term "Defaulted Obligations" means Obligations in respect of which an Event of Default has occurred and is continuing.

Engineer's Report

The term "Engineer's Report" means a report signed by an Independent Engineer.

Fiscal Year

The term "Fiscal Year" means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period selected and designated as the official Fiscal Year of the City.

Independent Certified Public Accountant

The term "Independent Certified Public Accountant" means any firm of certified public accountants appointed by the City, and each of whom is independent pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

Independent Engineer

The term "Independent Engineer" means any registered engineer or firm of registered engineers of national reputation generally recognized to be well qualified in engineering matters relating to water systems, appointed and paid by but not under the control of the City.

Installment Payment Date

The term "Installment Payment Date" means any date on which an Installment Payment is due as specified in the Master Installment Purchase Agreement or determined pursuant to a Supplement.

Installment Payments

The term "Installment Payments" means the Installment Payments scheduled to be paid by the City under and pursuant to the Master Installment Purchase Agreement and any supplement to the Master Installment Purchase Agreement as well as any amounts payable by the City on any Obligations under and pursuant to any Issuing Instrument.

Installment Payment Obligations

The term "Installment Payment Obligations" means Obligations consisting of or which are supported in whole by Installment Payments.

Interest Portion

The term "Interest Portion" means the portion of any Installment Payment specified as interest in any Supplement.

Issuing Instrument

The term "Issuing Instrument" means any indenture, trust agreement, loan agreement, lease, installment purchase agreement, or the Master Installment Purchase Agreement, including any Supplement or other instrument under which Obligations are issued or created.

Law

The term "Law" means the Charter and all applicable laws of the State.

Maintenance and Operation Costs of the Water System

The term "Maintenance and Operation Costs of the Water System" means (a) any Qualified Take or Pay Obligation, and (b) the reasonable and necessary costs spent or incurred by the City for maintaining and operating the Water System, calculated in accordance with generally accepted accounting principles, including, without limitation, the costs of the purchase, delivery or storage of water, the reasonable expenses of maintenance and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including administrative costs of the City attributable to the Water System, including the Project and the Master Installment Purchase Agreement, salaries and wages of employees of the Water System, payments to such employees' retirement systems (to the extent paid from System Revenues), overhead, taxes (if any), fees of auditors, accountants, attorneys, or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Obligations, including the Master Installment Purchase Agreement, including any amounts required to be deposited in the Rebate Fund pursuant to a Tax Certificate, and fees and expenses payable to any Credit Provider (other than in repayment of a Credit Provider Reimbursement Obligation), but excluding in all cases (1) depreciation, replacement and obsolescence charges or reserves therefor, (2) amortization of intangibles or other bookkeeping entries of a similar nature, (3) costs of capital additions, replacements, betterments, extensions or improvements to the Water System which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, (4) charges for the payment of principal of and interest on any general obligation bond issued for Water System purposes, and (5) charges for the payment of principal of and interest on any debt service on account of any Obligation on a parity with or subordinate to the Installment Payments.

Maximum Annual Debt Service

The term "Maximum Annual Debt Service" means,

(a) with respect to Parity Obligations then Outstanding, the maximum amount of principal and interest becoming due on the Parity Obligations in the then-current or any future Fiscal Year, calculated by the City or by an Independent Certified Public Accountant in accordance with the Master Installment Purchase Agreement and provided to the Trustee. For purposes of calculating Maximum Annual Debt Service, the following assumptions shall be used to calculate the principal and interest becoming due in any Fiscal Year:

(i) in determining the principal amount due in each Fiscal Year, payments shall (except to the extent a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including the amount of any Parity Obligations which or have the characteristics of commercial paper and which not intended at the time of issuance to be retired from the sale of a corresponding amount of Parity Obligations, and including any

scheduled mandatory redemption or prepayment of Parity Obligations on the basis of accreted value due upon such redemption or prepayment, and for such purpose, the redemption payment or prepayment shall be deemed a principal payment; provided, however, that with respect to Parity Obligations which are or have the characteristics of commercial paper and which are intended at the time of issuance to be retired from the sale of a corresponding amount of other Obligations, which other Obligations would not constitute Balloon Indebtedness, each maturity thereof shall be treated as if it were to be amortized in substantially equal installments of principal and interest over a term of 30 years, commencing in the year of such stated maturity; in determining the interest due in each Fiscal Year, interest payable at a fixed rate shall (except to the extent paragraph (A)(ii) or (iii) of this definition applies) be assumed to be made at such fixed rate and on the required payment dates;

(ii) if all or any portion or portions of an Outstanding Series of Parity Obligations constitute Balloon Indebtedness or if all or any portion or portions of a Series of Parity Obligations or such payments then proposed to be issued would constitute Balloon Indebtedness, then, for purposes of determining Maximum Annual Debt Service, each maturity which constitutes Balloon Indebtedness shall be treated as if it were to be amortized in substantially equal annual installments of principal and interest over a term of 30 years, commencing in the year the stated maturity of such Balloon Indebtedness occurs, the interest rate used for such computation shall be determined as provided in paragraph (A)(iv) or (v) below, as appropriate, and all payments of principal and interest becoming due prior to the year of the stated maturity of the Balloon Indebtedness shall be treated as described in paragraph (A)(i) above;

(iii) if any Outstanding Series of Parity Obligations constitutes Tender Indebtedness or if Parity Obligations proposed to be issued would constitute Tender Indebtedness, then for purposes of determining Maximum Annual Debt Service, Tender Indebtedness shall be treated as if the principal amount of such Parity Obligations were to be amortized in accordance with the amortization schedule set forth in the Supplement or Issuing Instrument for such Tender Indebtedness or in the standby purchase or liquidity facility established with respect to such Tender Indebtedness, or if no such amortization schedule is set forth, then such Tender Indebtedness shall be deemed to be amortized in substantially equal annual installments of principal and interest over a term of 30 years commencing in the year in which such Series is first subject to tender, the interest rate used for such computation shall be determined as provided in paragraph (A)(iv) or (v) below, as appropriate;

(iv) if any Outstanding Series of Parity Obligations constitutes Variable Rate Indebtedness, the interest rate on such Obligations shall be assumed to be 110% of the daily average interest rate on such Parity Obligations during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Parity Obligations shall have been Outstanding;

(v) if Parity Obligations proposed to be issued will be Variable Rate Indebtedness, then such Parity Obligations shall be assumed to bear interest at 80% of the average Revenue Bond Index during the calendar quarter preceding the calendar quarter in which the calculation is made, or if that index is no longer published, another similar index selected by the City, or if the City fails to select a replacement index, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity, or if there are no such Treasury bonds having such maturities, 100% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States ranked by assets; and

(vi) if moneys or Permitted Investments have been deposited by the City into a separate fund or account or are otherwise held by the City or by a fiduciary to be used to pay principal of and/or interest on specified Parity Obligations, then the principal and/or interest to be paid from such moneys, Permitted Investments, or from the earnings thereon shall be disregarded and not included in calculating Maximum Annual Debt Service.

(b) with regard to all Obligations then Outstanding, the maximum amount of principal and interest becoming due on the Obligations in the then-current or any future Fiscal Year, calculated by the City or by an Independent Certified Public Accountant in accordance with this subsection and provided to the Trustee. For purposes of calculating Maximum Annual Debt Service, the following assumptions shall be used to calculate the principal and interest becoming due in any Fiscal Year:

(i) in determining the principal amount due in each Fiscal Year, payments shall (except to the extent a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including the amount of any Obligations which are or have the characteristics of commercial paper and which are not intended at the time of issuance to be retired from the sale of a corresponding amount of Obligations, and including any scheduled mandatory redemption or prepayment of Obligations on the basis of accreted value due upon such redemption or prepayment, and for such purpose, the redemption payment or prepayment shall be deemed a principal payment; provided, however, that with respect to Obligations which are or have the characteristics of commercial paper and which are intended at the time of issuance to be retired from the proceeds of sale of a corresponding amount of other Obligations, and which would not constitute Balloon Indebtedness, each maturity thereof shall be treated as if it were to be amortized in substantially equal installments of principal and interest over a term of 30 years, commencing in the year of such stated maturity; in determining the interest due in each Fiscal Year, interest payable at a fixed rate shall (except to the extent paragraph (B)(ii) or (iii) of this definition applies) be assumed to be made at such fixed rate and on the required payment dates;

(ii) if all or any portion or portions of an Outstanding Series of Obligations constitute Balloon Indebtedness or if all or any portion or portions of a Series of Obligations or such payments then proposed to be issued would constitute Balloon Indebtedness, then, for purposes of determining Maximum Annual Debt Service, each maturity which constitutes Balloon Indebtedness shall be treated as if it were to be amortized in substantially equal annual installments of principal and interest over a term of 30 years, commencing in the year the stated maturity of such Balloon Indebtedness occurs, the interest rate used for such computation shall be determined as provided in paragraph (B)(iv) or (v) below, as appropriate, and all payments of principal and interest becoming due prior to the year of the stated maturity of the Balloon Indebtedness shall be treated as described in paragraph (B)(i) above;

(iii) if any Outstanding Series of Obligations constitutes Tender Indebtedness or if Obligations proposed to be issued would constitute Tender Indebtedness, then for purposes of determining Maximum Annual Debt Service, Tender Indebtedness shall be treated as if the principal amount of such Obligations were to be amortized in accordance with the amortization schedule set forth in the Supplement or Issuing Instrument for such Tender Indebtedness or in the standby purchase or liquidity facility established with respect to such Tender Indebtedness, or if no such amortization schedule is set forth, then such Tender Indebtedness shall be deemed to be amortized in substantially equal annual installments of principal and interest over a term of 30 years, commencing in the year in which such Obligations are first subject to tender, the interest rate used for such computation shall be determined as provided in paragraph (B)(iv) or (v) below, as appropriate;

(iv) if any Outstanding Series of Obligations constitute Variable Rate Indebtedness, the interest rate on such Series of Obligations shall be assumed to be 110% of the daily average interest rate on such Series of Obligations during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Series of Obligations shall have been Outstanding;

(v) if Obligations proposed to be issued will be Variable Rate Indebtedness, then such Obligations shall be assumed to bear interest at 80% of the average Revenue Bond Index during the calendar quarter preceding the calendar quarter in which the calculation is made, or if that index is no longer published, another similar index selected by the City, or if the City fails to select a replacement index, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity, or if there are no such Treasury bonds having such maturities, 100% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States ranked by assets; and

(vi) if moneys or Permitted Investments have been deposited by the City into a separate fund or account or are otherwise held by the City or by a fiduciary to be used to pay principal and/or interest on specified Obligations, then the principal and/or interest to be paid from such moneys, Permitted Investments or from the earnings thereon shall be disregarded and not included in calculating Maximum Annual Debt Service.

Maximum Rate

The term "Maximum Rate" means, on any day, the maximum interest rate allowed by law.

Net Proceeds

The term "Net Proceeds" means, when used with respect to any insurance, self-insurance, or condemnation award, the proceeds from such award that are remaining after payment of all expenses (including attorneys' fees) incurred in the collection of such proceeds.

Net System Revenues

The term "Net System Revenues" means, for any Fiscal Year, the System Revenues for such Fiscal Year, less the Maintenance and Operation Costs of the Water System for such Fiscal Year.

Obligations

The term "Obligations" means (a) obligations of the City for money borrowed (such as bonds, notes or other evidences of indebtedness) or as installment purchase payments under any contract (including Installment Payments), or as lease payments under any financing lease (determined to be such in accordance with generally accepted accounting principles), the principal of and interest on which are payable from Net System Revenues; (b) obligations to replenish any debt service reserve funds with respect to such obligations of the City; (c) obligations secured by or payable from any of such obligations of the City; and (d) obligations of the City payable from Net System Revenues under (1) any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, (2) any contract to exchange cash flows or a series of payments, or (3) any contract to hedge payment, currency, rate spread or similar exposure, including but not limited to interest rate cap agreements.

Outstanding

The term "Outstanding," when used as of any particular time with respect to Obligations, means all Obligations theretofore or thereupon executed, authenticated and delivered by the City or any trustee or other fiduciary, except (a) Obligations theretofore cancelled or surrendered for cancellation; (b) Obligations paid or deemed to be paid within the meaning of any defeasance provisions thereof; (c) Obligations owned by the City; and (d) Obligations in lieu of or in substitution for which other Obligations have been executed and delivered.

Owner

The term "Owner" means any person who shall be the registered owner of any certificate or other evidence of a right to receive Installment Payments directly or as security for payment of an Outstanding Obligation.

Parity Installment Obligation

The term "Parity Installment Obligation" means Obligations consisting of or payable from Installment Payments which are not subordinate in right of payment to other Installment Payments.

Parity Obligations

The term "Parity Obligations" means Obligations the payment of which is secured by a first priority lien on and pledge of Net System Revenues pursuant to the caption "Commitment of Net System Revenues" below and the Collateral Agency Agreement.

Parity Obligations Interest Account

The term "Parity Obligations Interest Account" means the account of that name established and maintained by the Collateral Agent under the Collateral Agency Agreement.

Parity Obligations Payment Fund

The term "Parity Obligations Payment Fund" means the fund of that name established and maintained by the Collateral Agent under the Collateral Agency Agreement.

Parity Obligations Principal Account

The term "Parity Obligations Principal Account" means the account of that name established and maintained by the Collateral Agent under the Collateral Agency Agreement.

Payment Fund

The term "Payment Fund" means the fund designated in the Issuing Instrument as the fund into which Installment Payments are to be deposited for the purposes of paying principal of or interest on related Obligations.

Permitted Investments

The term "Permitted Investments" means investments which, pursuant to the Issuing Instrument, are permissible for the investment of funds received from the sale of Obligations pursuant to the Issuing Document or from other funds held pursuant to the Issuing Document.

Principal Portion

The term "Principal Portion" means the portion of any Installment Payment specified as principal in any Supplement.

Purchase Price

The term "Purchase Price" means the principal amount, plus interest thereon, owed by the City to the Corporation under the terms of the Master Installment Purchase Agreement for the purchase of Project Components, as specified in the Master Installment Purchase Agreement or in a Supplement.

Qualified Take or Pay Obligation

The term "Qualified Take or Pay Obligation" means the obligation of the City to make or use any facility, property, or services, or some portion of the capacity thereof, or to pay therefor from System Revenues, or both, whether or not such facilities, properties, or services are ever made available to the City for use, and there is provided to the City a certificate of the City or of an Independent Engineer to the effect that the incurrence of such obligation will not adversely affect the ability of the City to comply with the provisions of the Master Installment Purchase Agreement.

Rate Stabilization Fund

The term "Rate Stabilization Fund" means the fund by that name established pursuant to the Master Installment Purchase Agreement.

Rebate Requirement

The term "Rebate Requirement" shall have the meaning specified in the Tax Certificate.

Reserve Fund

The term "Reserve Fund" shall refer to the fund by that name established under an Issuing Instrument or Supplement.

Reserve Fund Obligations

The term "Reserve Fund Obligations" means the obligations of the City to pay amounts advanced under any Reserve Fund Credit Facility entered into in accordance with the provisions of the related Issuing Instrument or Supplement, which obligations shall constitute Parity Obligations or Subordinated Obligations, as designated by the City.

Reserve Fund Credit Facility

The term "Reserve Fund Credit Facility" means a letter of credit, line of credit, surety bond, insurance policy or similar facility deposited in the Reserve Fund established under an Issuing Instrument in lieu of or in partial substitution for cash or securities on deposit therein.

Reserve Requirement

The term "Reserve Requirement" shall have the meaning given to such term in any Issuing Instrument or Supplement.

Revenue Bond Index

The term "Revenue Bond Index" means the Revenue Bond Index by that name published from time to time in The Bond Buyer.

Secondary Purchase Fund

The term "Secondary Purchase Fund" means any fund by that name established pursuant to the Master Installment Purchase Agreement.

Secured Obligations

The term "Secured Obligations" means Parity Obligations and/or Subordinated Obligations, as the context requires.

Serial Obligations

The term "Serial Obligations" means Obligations for which no sinking fund payments are provided.

Serial Parity Obligations

The term "Serial Parity Obligations" means Serial Obligations which are Parity Installment Payments or are payable on a parity with Parity Installment Obligations.

Series

The term "Series" means Obligations issued at the same time or sharing some other common term or characteristic and designated as a separate Series.

SRF Loan Agreements

The term "SRF Loan Agreements" means Obligations evidenced by agreements by and between the City and the California State Water Resources Control Board or the California State Department of Public Health or any successor lender under any State Revolving Fund loan.

Subordinated Credit Provider

The term "Subordinated Credit Provider" means any municipal bond insurance company, bank, or other financial institution or organization which is performing in all respects its obligations under any Subordinated Credit Support Instrument for some or all of the Subordinated Obligations.

Subordinated Credit Provider Reimbursement Obligations

The term "Subordinated Credit Provider Reimbursement Obligations" means obligations of the City to repay, from Net System Revenues, amounts advanced by a Subordinated Credit Provider as credit support or liquidity for Subordinated Obligations, which obligations shall constitute Subordinated Obligations.

Subordinated Credit Support Instrument

The term "Subordinated Credit Support Instrument" means a policy of insurance, a letter of credit, a standby purchase agreement, revolving credit agreement, or other credit arrangement pursuant to which a Subordinated Credit Provider provides credit support or liquidity with respect to the payment of interest, principal, or the purchase price of any Subordinated Obligations.

Subordinated Obligations

The term "Subordinated Obligations" means Obligations the payment of which is secured by a second priority lien on and pledge of Net System Revenues that is junior and subordinate to the lien on and pledge of Net System Revenues securing Parity Obligations pursuant to the caption "Commitment of the Net System Revenues" below and the Collateral Agency Agreement.

Subordinated Obligation Principal Funding Date

The term "Subordinated Obligation Principal Funding Date" means each Subordinated Obligation Installment Payment Date on which the Principal Portion is due and payable under the Master Installment Purchase Agreement as well as each date on which principal or mandatory sinking fund redemptions are due and payable on any Subordinated Obligation under any other Issuing Instrument.

Subordinated Obligations Interest Account

The term "Subordinated Obligations Interest Account" means the account of that name established and maintained by the Collateral Agent under the Collateral Agency Agreement.

Subordinated Obligations Payment Fund

The term "Subordinated Obligations Payment Fund" means the fund of that name established and maintained by the Collateral Agent under the Collateral Agency Agreement.

Subordinated Obligations Principal Account

The term "Subordinated Obligations Principal Account" means the account of that name established and maintained by the Collateral Agent under the Collateral Agency Agreement.

System Revenues

The term "System Revenues" means all income, rents, rates, fees, charges, and other moneys derived from the ownership or operation of the Water System, including, without limiting the generality of the foregoing:

(a) all income, rents, rates, fees, charges, or other moneys derived by the City from the water services or facilities, and commodities or byproducts, including hydroelectric power, sold, furnished, or supplied through the facilities of or in the conduct or operation of the business of the Water System, and including, without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Water System by or pursuant to law, and earnings on any Reserve Fund for Obligations, but only to the extent that such earnings may be utilized under the Issuing Instrument for the payment of debt service for such Obligations;

(b) standby charges and Capacity Charges derived from the services and facilities sold or supplied through the Water System;

(c) the proceeds derived by the City directly or indirectly from the lease of a part of the Water System;

(d) any amount received from the levy or collection of taxes which are solely available and are earmarked for the support of the operation of the Water System;

(e) amounts received under contracts or agreements with governmental or private entities and designated for capital costs for the Water System*; and

(f) grants for maintenance and operations received from the United States of America or from the State; provided, however, that System Revenues shall not include (1) in all cases, customers' deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; and (2) the proceeds of borrowings; but

(g) notwithstanding the foregoing, there shall be deducted from System Revenues any amounts transferred into a Rate Stabilization Fund as contemplated by the Master Installment Purchase Agreement, and any amounts transferred from current System Revenues to the Secondary Purchase Fund as contemplated by the Master Installment Purchase Agreement, and there shall be added to System Revenues any amounts transferred out of such Rate Stabilization Fund or the Secondary Purchase Fund to pay Maintenance and Operation Costs of the Water System.

Tax-Exempt Installment Payment Obligations

The term "Tax-Exempt Installment Payment Obligations" means Installment Payment Obligations, the interest component of which is excluded from gross income pursuant to Section 103 of the Code.

Tender Indebtedness

The term "Tender Indebtedness" means any Obligations or portions of Obligations, a feature of which is an option, on the part of the holders thereof, or an obligation, under the terms of such Obligations, to tender all or a portion of such Obligations to the City, a Trustee or other fiduciary or agent for payment or purchase and requiring that such Obligations or portions of Obligations or that such rights to payments or portions of payments be purchased if properly presented. Tender Indebtedness may consist of either Parity Obligations or Subordinated Obligations.

Term Parity Obligations

The term "Term Parity Obligations" means Term Obligations which are Parity Obligations or are payable on a parity with Parity Installment Obligations.

Term Obligations

The term "Term Obligations" means Obligations which are payable on or before their specified maturity dates from sinking fund payments established for that purpose and calculated to retire such Obligations on or before their specified maturity dates.

Variable Rate Indebtedness

The term "Variable Rate Indebtedness" means any portion of indebtedness evidenced by Obligations, the interest rate for which is subject to adjustment periodically through a remarketing process or according to a stated published index for similar obligations in the municipal markets. Variable Rate Indebtedness may consist of either Parity Obligations or Subordinated Obligations.

Water Service

The term "Water Service" means the collection, conservation, production, storage, treatment, transmission, furnishing, and distribution services made available or provided by the Water System.

Water Utility Fund

The term "Water Utility Fund" means the fund by that name established by the Charter.

2017 Supplement

The term "2017 Supplement" means the 2017 Commercial Paper Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2017, by and between the City and the Corporation.

Installment Payments

Purchase Price.

(a) The City will pay the Purchase Price for any Components being purchased as provided in a Supplement. The Purchase Price to be paid by the City to the Corporation pursuant to any Supplement, solely from Net System Revenues and from no other sources, is the sum of the principal amount of the City's obligations under such Supplement plus the interest to accrue on the unpaid balance of such principal amount from the effective date thereof over the term thereof, subject to prepayment as provided therein.

(b) The principal amount of the Installment Payments to be made by the City under a Supplement shall be paid at least three Business Days prior to the date such Installment Payments are payable as specified in such Supplement or at such other earlier time or times and in the manner or manners as specified in such Supplement. In the event the principal amount of an Installment Payment is not paid by the date the same is due and payable as specified in such Supplement, the same shall bear interest at the Default Rate, commencing on the day the same as due, to, but not including, the payment date.

(c) The interest to accrue on the unpaid balance of such principal amount shall be paid at least three Business Days prior to the date such interest is payable as specified in a Supplement or at such other earlier time or times as specified in such Supplement, and shall be paid by the City as and constitute interest paid in the principal amount of the City's obligations thereunder. Interest shall be payable in an amount not exceeding the Maximum Rate at the time of incurring such obligation, at such intervals and according to such interest rate formulas as shall be specified in a Supplement or by reference to any Issuing Instrument to which such Supplement relates, and shall be payable with such frequency as shall be specified therein. In the event that interest is not paid by the date such interest is payable, to the extent permitted by applicable law, such interest shall thereafter bear interest at the Default Rate, commencing on the day the same is due, to, but not including, the payment date.

Installment Payments; Reserve Fund Payments.

(a) The City shall, subject to any rights of prepayment provided for in a Supplement, pay to the Corporation, solely from Net System Revenues and from no other sources, the Purchase Price in Installment Payments over a period not to exceed the maximum period permitted by law, all as specified in a Supplement.

(b) In the event that a Trustee notifies the City that the amount on deposit in a Reserve Fund or Reserve Account is less than the Reserve Requirement, the City shall deposit or cause to be deposited, solely from Net System Revenues in accordance with the Master Installment Purchase Agreement, in such Reserve Fund or Reserve Account such amounts on a monthly basis as are necessary to increase the amount on deposit therein to the Reserve Requirement in the ensuing twelve months.

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

System Revenues

Commitment of the Net System Revenues.

(a) All Parity Obligations, including Parity Installment Payment Obligations, shall be secured by a first priority lien on and pledge of Net System Revenues. The City grants to the Collateral Agent, for the benefit of the holders of Parity Obligations, a first priority lien on and pledge of Net System Revenues to secure Parity Obligations. All Parity Obligations shall be of equal rank with each other without preference, priority or distinction of any Parity Obligations over any other Parity Obligations; provided that a Parity Obligation that by its terms under certain circumstances can require the full amount of the Parity Obligation to become payable in installments over not less than five years from the occurrence of the triggering event shall not be deemed to create any impermissible preference, priority or distinction as to lien or otherwise of such Parity Obligation over any other Parity Obligation.

(b) All Subordinated Obligations, including Subordinated Installment Payment Obligations, shall be secured by a second priority lien on and pledge of Net System Revenues that is junior and subordinate to the lien on and pledge of Net System Revenues securing Parity Obligations. The City grants to the Collateral Agent, for the benefit of the holders of Subordinated Obligations, a second priority lien on and pledge of Net System Revenues to secure Subordinated Obligations. All Subordinated Obligations shall be of equal rank with each other without preference, priority or distinction of any Subordinated Obligations over any other Subordinated Obligations; provided that a Subordinated Obligation that by its terms under certain circumstances can require the full amount of the Subordinated Obligation to become payable in installments over not less than five years from the triggering event shall not be deemed to create any impermissible preference, priority or distinction as to lien or otherwise of such Subordinated Obligation over any other Subordinated Obligation; and provided further that a Subordinated Obligation that by its terms under certain circumstances must be treated as, or becomes, a Parity Obligation shall not be deemed to create any impermissible preference, priority or distinction as to lien or otherwise of such Subordinated Obligation over any other Subordinated Obligation.

(c) The City represents and states that it has not granted any lien or charge on any of the Net System Revenues except as provided in the Master Installment Purchase Agreement, in the Collateral Agency Agreement and in the SRF Loan Agreements; provided, however, that out of Net System Revenues there may be apportioned such sums for such purposes as are expressly permitted by the provisions under the caption "System Revenues" under the Master Installment Purchase Agreement.

(d) Nothing contained in the Master Installment Purchase Agreement shall limit the ability of the City to grant liens on and pledges of the Net System Revenues that are subordinate to the liens on and pledges of Net System Revenues for the benefit of Parity Obligations and Subordinated Obligations contained in the Master Installment Purchase Agreement.

Allocation of System Revenues.

(a) In order to carry out and effectuate the commitment and pledge contained under the caption "Amendments to the Master Installment Purchase Agreement – Commitment of the Net System Revenues" above, the City agrees and covenants that all System Revenues shall be received by the City in trust and shall be deposited when and as received in the Water Utility Fund, which fund the City agrees and covenants to maintain so long as any Obligations remain unpaid, and all moneys in the Water Utility Fund shall be so held in trust and applied and used solely as provided in the Master Installment Purchase Agreement in the amounts, at the times and only for the purposes specified below and in the following order of priority; provided that no amount shall be transferred on any date pursuant to any clause below until amounts sufficient for all the purposes specified under the prior clauses shall have been transferred or set aside; and provided further that in the event there are insufficient Net System Revenues to make all of the payments contemplated in any one clause below, then said transfers, deposits and payments directed by such clause shall be made as nearly as practicable pro rata, based upon the respective unpaid amounts of the Obligations addressed by such clause:

First, the City shall pay from the Water Utility Fund directly or as otherwise required all Maintenance and Operation Costs of the Water System;

Second, on each Parity Obligation Interest Funding Date and on each other date on which the following amounts shall be due and payable, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in the Parity Obligations Interest Account of the Parity Obligations Payment Fund, the sum of (A) an amount equal to the interest due and payable on all Parity Obligations; plus (B) an amount equal to any continuing shortfall in transfers required to have been made to the Parity Obligations Interest Account on any preceding Parity Obligation Interest Funding Date;

Third, on each Parity Obligation Principal Funding Date and on each other date on which the following amounts shall be due and payable, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in the Parity Obligations Principal Account of the Parity Obligations Payment Fund, the sum of (A) an amount equal to the principal and mandatory sinking fund redemptions due and payable on all Parity Obligations; plus (B) an amount equal to any continuing shortfall in transfers required to have been made to the Parity Obligations Principal Account on any preceding Parity Obligation Principal Funding Date;

Fourth, on each Parity Obligation Interest Funding Date, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in any Parity Obligations Reserve Account (if any) the amount necessary so that the balance therein equals the applicable Parity Obligations Reserve Requirement; provided that in the event of any draw on a Reserve Fund Credit Facility held in any Parity Obligations Reserve Account, there shall be deemed a deficiency in such Parity

Obligations Reserve Account until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount;

Fifth, on each Subordinated Obligation Interest Funding Date and on each other date on which the following amounts shall be due and payable, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in the Subordinated Obligations Interest Account of the Subordinated Obligations Payment Fund, the sum of (A) an amount equal to the interest due and payable on all Subordinated Obligations; plus (B) an amount equal to any continuing shortfall in transfers required to have been made to the Subordinated Obligations Interest Account on any preceding Subordinated Obligation Interest Funding Date;

Sixth, on each Subordinated Obligation Principal Funding Date and on each other date on which the following amounts shall be due and payable, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in the Subordinated Obligations Principal Account of the Subordinated Obligations Payment Fund, the sum of (A) an amount equal to the principal and mandatory sinking fund redemptions due and payable on all Subordinated Obligations; plus (B) an amount equal to any continuing shortfall in transfers required to have been made to the Subordinated Obligations Principal Account on any preceding Funding Date; and

Seventh, on each Subordinated Obligation Interest Funding Date, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in any Subordinated Obligations Reserve Account (if any) the amount necessary so that the balance therein equals the applicable Subordinated Obligations Reserve Requirement; provided that in the event of any draw on a Reserve Fund Credit Facility held in any Subordinated Obligations Reserve Account, there shall be deemed a deficiency in such Subordinated Obligations Reserve Account until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount.

(b) After the transfers, deposits and payments contemplated by subsection (a) above have been made, any amounts thereafter remaining in the Water Utility Fund may be used for any lawful purpose of the Water System.

Additional Obligations.

(a) The City may not create any Obligations, the payments of which are senior or prior in right to the payment by the City of Parity Obligations.

(b) Without regard to paragraph (c) below, the City may at any time enter into or create an obligation or commitment which is a Reserve Fund Obligation, provided that the Obligation to which the Reserve Fund Obligation relates is permitted to be entered into under the terms of the Master Installment Purchase Agreement.

(c) After the initial issuance of Parity Obligations under the Master Installment Purchase Agreement, the City reserved the right, at any time and from time to time, to issue or create any other Parity Obligations, provided that:

(i) there shall not have occurred and be continuing an Event of Default under the terms of the Master Installment Purchase Agreement, any Issuing Instrument or any Credit Support Instrument; and

(ii) the City obtains or provides a certificate or certificates, prepared by the City or at the City's option by a Consultant, showing that:

(A) the Net System Revenues as shown by the books of the City for any 12-consecutive-month period within the 18 consecutive months ending immediately prior to the incurring of such additional Parity Obligations shall have amounted to or exceeded the greater of (i) at least 1.20 times the Maximum Annual Debt Service on all Parity Obligations to be Outstanding immediately after the issuance of the proposed Parity Obligations or (ii) at least 1.00 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed Parity Obligations. For purposes of preparing the certificate or certificates described above, the City or its Consultant may rely upon audited financial statements, or, if audited financial statements for the period are not available, financial statements prepared by the City that have not been subject to audit by an Independent Certified Public Accountant; or

(B) the estimated Net System Revenues for the five Fiscal Years following the earlier of (i) the end of the period during which interest on those Parity Obligations is to be capitalized or, if no interest is to be capitalized, the Fiscal Year in which the Parity Obligations are issued, or (ii) the date on which substantially all new Components to be financed with such Parity Obligations are expected to commence operations, will be at least equal to 1.20 times the Maximum Annual Debt Service for all Parity Obligations which will be Outstanding immediately after the issuance of the proposed Parity Obligations.

(d) For purposes of the computations to be made as described in paragraph (c)(ii)(B) above, the determination of Net System Revenues:

(i) may take into account any increases in rates and charges which relate to the Water System and which have been approved by the City Council, and shall take into account any reduction in such rates and charges which have been approved by the City Council, which will, for purposes of the test described in paragraph (c)(ii)(B) above, be effective during a Fiscal Year ending within the five-Fiscal Year period for which such estimate is being made; and

(ii) may take into account an allowance for any estimated increase in such Net System Revenues from any revenue-producing additions or improvements to or extensions of the Water System to be made with the proceeds of such additional indebtedness or with the proceeds of Parity Obligations previously issued, all in an amount equal to the estimated additional average annual Net System Revenues to be derived from such additions, improvements and extensions during the five-Fiscal Year period contemplated by paragraph (c)(ii)(B) above, all as shown by such certificate of the City or its Consultant, as applicable; and

(iii) for the period contemplated by paragraph (c)(ii)(B), Maintenance and Operation Costs of the Water System shall initially be deemed to be equal to such costs for the 12 consecutive months immediately prior to incurring such other Parity Obligations for the first Fiscal Year of the five-Fiscal Year period, but adjusted if deemed necessary by the City or its Consultant, as applicable, for any increased Maintenance and Operations Costs of the Water System which are, in the judgment of the City or such Consultant, as applicable, essential to maintaining and operating the Water System and which will occur during any Fiscal Year ending within the period contemplated by paragraph (c)(ii)(B) above.

(e) The certificate or certificates described above in paragraph (c)(ii)(B) shall not be required if the Parity Obligations being issued are for the purpose of (1) issuing the Parity Obligations initially issued under the Master Installment Purchase Agreement or (2) refunding (A) any then Outstanding Parity Obligations if at the time of the issuance of such Parity Obligations a certificate of an Authorized City

Representative shall be delivered showing that the sum of Adjusted Debt Service on all Parity Obligations Outstanding for all remaining Fiscal Years after the issuance of the refunding Parity Obligations will not exceed the sum of Adjusted Debt Service on all Parity Obligations Outstanding for all remaining Fiscal Years prior to the issuance of such refunding Parity Obligations; or (B) then Outstanding Balloon Indebtedness, Tender Indebtedness or Variable Rate Indebtedness, but only to the extent that the principal amount of such indebtedness has been put, tendered to or otherwise purchased pursuant to a standby purchase or other liquidity facility relating to such indebtedness.

(f) Without regard to paragraph (c) above, if (A) no Event of Default has occurred and is continuing and (B) no event of default or termination event attributable to an act of or failure to act by the City under any Credit Support Instrument has occurred and is continuing, the City may issue or incur Subordinated Obligations, and such Subordinated Obligations shall be paid in accordance with the provisions of the Master Installment Purchase Agreement, provided that:

(i) City obtains or provides a certificate or certificates, prepared by the City or at the City's option by a Consultant, showing that;

(1) the Net System Revenues as shown by the books of the City for any 12-consecutive-month period within the 18 consecutive months ending immediately prior to the incurring of such additional Subordinated Obligations shall have amounted to at least 1.00 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed Subordinated Obligations; or

(2) the estimated Net System Revenues for the five Fiscal Years following the earlier of (i) the end of the period during which interest on those Subordinated Obligations is to be capitalized or, if no interest is to be capitalized, the Fiscal Year in which the Subordinated Obligations are issued; or (ii) the date on which substantially all new facilities financed with such Subordinated Obligations are expected to commence operations, will be at least equal to 1.00 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed Subordinated Obligations.

(ii) For purposes of preparing the certificate or certificates described in clause (1) of paragraph (f)(i) above, the City and its Consultant(s) may rely upon audited financial statements or, if audited financial statements for the period are not available, financial statements prepared by the City that have not been subject to audit by an Independent Certified Public Accountant.

(iii) For purposes of the computations to be made as described in clause (2) of paragraph (f)(i) above, the determination of Net System Revenues:

(1) may take into account any increases in rates and charges which relate to the Water System and which have been approved by the City Council and shall take into account any reduction in such rates and charges which have been approved by the City Council, which will, for purposes of the test described in clause (2) of paragraph (f)(i) above, be effective during any Fiscal Year ending within the five-Fiscal Year period for which such estimate is made; and

(2) may take into account an allowance for any estimated increase in such Net System Revenues from any revenue-producing additions or improvements to or extensions of the Water System to be made with the proceeds of such additional indebtedness, with the proceeds of Obligations previously issued or with cash

contributions made or to be made by the City, all in an amount equal to the estimated additional average annual Net System Revenues to be derived from such additions, improvements and extensions during the five-Fiscal Year period contemplated by clause (2) of paragraph (f)(i) above, all as shown by such certificate of the City or its Consultant, as applicable; and

(3) for the period contemplated by clause (2) of paragraph (f)(i) above, shall initially include Maintenance and Operation Costs of the Water System in an amount equal to such costs for any 12-consecutive month period within the 24 consecutive months ending immediately prior to incurring such Subordinated Obligations for the first Fiscal Year of the five-Fiscal Year period, but adjusted if deemed necessary by the City or its Consultant, as applicable, for any increased Maintenance and Operations Costs of the Water System which are, in the judgment of the City or its Consultant, as applicable, essential to maintaining and operating the Water System and which will occur during any Fiscal Year ending within the period contemplated by clause (2) of paragraph (f)(i) above.

(iv) The certificate or certificates described above in paragraph (f)(i) above shall not be required if the Subordinated Obligations being issued are for the purpose of refunding (i) then-Outstanding Parity Obligations or Subordinated Obligations if at the time of the issuance of such Subordinated Obligations a certificate of an Authorized City Representative shall be delivered showing that the sum of Debt Service for all remaining Fiscal Years on all Parity Obligations and Subordinated Obligations Outstanding after the issuance of the refunding Subordinated Obligations will not exceed the sum of Debt Service for all remaining Fiscal Years on all Parity Obligations and Subordinated Obligations Outstanding prior to the issuance of such refunding Subordinated Obligations; or (ii) then-Outstanding Balloon Indebtedness, Tender Indebtedness or Variable Rate Indebtedness, but only to the extent that the principal amount of such indebtedness has been put, tendered to or otherwise purchased by a standby purchase agreement or other liquidity facility relating to such indebtedness.

Covenants of the City

Compliance With Master Installment Purchase Agreement and Ancillary Agreements.

(a) The City will punctually pay Parity Obligations in strict conformity with the terms of the Master Installment Purchase Agreement and thereof; and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Master Installment Purchase Agreement required to be observed and performed by it, and will not terminate the Master Installment Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either or any failure of the Corporation to observe or perform any agreement, condition, covenant or term contained in the Master Installment Purchase Agreement required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected therewith or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Corporation or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

(b) The City will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Master Installment Purchase Agreement, including Supplements, and any Issuing Instrument or Credit Support Instrument relating to Parity Obligations required to be observed and performed by it, and it is expressly understood and agreed by and between the parties to the Master Installment Purchase Agreement that each of the agreements, conditions, covenants and terms contained therein is an essential and material term of the purchase of and payment for each Component by the City pursuant to, and in accordance with, and as authorized under the Law.

(c) The City will faithfully observe and perform all of the agreements and covenants of the City contained in each Authorizing Ordinance and will not permit the same to be amended or modified so as to adversely affect the Owners of Installment Payment Obligations.

(d) The City shall be unconditionally and irrevocably obligated, so long as any Installment Payment Obligations remain Outstanding and unpaid, to take all lawful action necessary or required to continue to entitle the City to collect and deposit such System Revenues in the Water Utility Fund for use as provided in the Master Installment Purchase Agreement; provided, however, that such obligation does not, in any way, limit the City's ability to undertake any and all legal actions, including any appeals, in the defense of a federal court order dictating a water system configuration other than that approved and adopted by the City.

Against Encumbrances. The City will not make any pledge of or place any lien on the Net System Revenues except as otherwise provided or permitted in the Master Installment Purchase Agreement.

Debt Service Reserve Fund. The City will maintain or cause to be maintained each Reserve Fund at the applicable Reserve Requirement. In the event the amount in any such fund or account falls below the applicable Reserve Requirement, the City will replenish such fund or account up to the applicable Reserve Requirement pursuant to the Master Installment Purchase Agreement.

Against Sale or Other Disposition of Property.

(a) The City will not sell, lease or otherwise dispose of the Water System or any part thereof essential to the proper operation of the Water System or to the maintenance of the System Revenues, except as provided in the Master Installment Purchase Agreement. Further, the City will not, except as otherwise provided in the Master Installment Purchase Agreement, enter into any agreement or lease that impairs the operation of the Water System or any part thereof necessary to secure adequate Net System Revenues for the payment of the Parity Obligations or that would otherwise impair the rights of the Corporation with respect to the System Revenues or the operation of the Water System.

(b) The City may dispose of any of the works, plant properties, facilities, or other parts of the Water System, or any real or personal property comprising a part of the Water System, only upon the approval of the City Council and consistent with one or more of the following:

(i) the City in its discretion may carry out such a disposition if the facilities or property being disposed of are not material to the operation of the Water System, or shall have become unserviceable, inadequate, obsolete, or unfit to be used in the operation of the Water System or are no longer necessary, material or useful to the operation of the Water System, and if such disposition will not materially reduce the Net System Revenues and if the proceeds of such disposition are deposited in the Water Utility Fund;

(ii) the City in its discretion may carry out such a disposition if the City receives from the acquiring party an amount equal to the fair market value of the portion of the Water System disposed of. As used in this clause (ii), "fair market value" means that the portion being disposed of should bring in a competitive and open market under all conditions requisite to a fair sale, the willing buyer and willing seller each acting prudently and knowledgeably, and assuming that the price is not affected by coercion or undue stimulus. The proceeds of the disposition shall be used (A) first, promptly to redeem, or irrevocably set aside for the redemption of, Parity Obligations, and second, promptly to redeem, or irrevocably set aside for the redemption of, Subordinated Obligations, and/or (B) to provide for a part of the cost of additions to and betterments and extensions of the Water System; provided, however, that before any such disposition under this clause (2), the City must obtain (i) a certificate of an Independent Engineer to the effect that upon such disposition and the use of the proceeds of the disposition as proposed by the City, the remaining portion of the Water System will retain its operational integrity and the estimated Net System Revenues for the five Fiscal Years following the Fiscal Year in which the disposition is to occur will be equal to or exceed the greater of (i) at least 1.20 times the Adjusted Debt Service on all Outstanding Parity Obligations during the five Fiscal Years following the Fiscal Year in which the disposition is to occur, or (ii) at least 1.00 times the Adjusted Debt Service on all Outstanding Obligations during the first five Fiscal Years following the Fiscal Year in which the disposition is to occur, taking into account (aa) the reduction in revenue resulting from the disposition, (bb) the use of any proceeds of the disposition for the redemption of Parity Obligations and/or Subordinated Obligations, (cc) the Independent Engineer's estimate of revenue from customers anticipated to be served by any additions to and betterments and extensions of the Water System financed in part by the proceeds of the disposition, and (dd) any other adjustment permitted in the preparation of a certificate in accordance with the Master Installment Purchase Agreement as summarized herein in paragraph (c)(2)(B) under the caption "Master Installment Purchase Agreement – System Revenues – Additional Obligations," and (ii) confirmation from the Rating Agencies to the effect that the rating then in effect on any Outstanding Parity Obligations will not be reduced or withdrawn upon such disposition.

(c) The City will operate the Water System in an efficient and economic manner, provided that the City may remove from service on a temporary or permanent basis such part or parts of the Water System as the City shall determine, so long as (1) Net System Revenues are at least equal to the greater of (i) 100% of all Obligations payable in the then-current Fiscal Year or (ii) 120% of Adjusted Debt Service for the then-current Fiscal Year, after giving effect to any defeasance of Parity Obligations and/or Subordinated Obligations occurring incident to such removal, and for each Fiscal Year thereafter to and including the Fiscal Year during which the last Installment Payment is due, after giving effect to such defeasance, as evidenced by (i) an Engineer's Report on file with the City, or (ii) a Certificate of the City, (2) the value of the parts of the Water System to be so removed is less than 5% of the total Water System Plant assets, each as shown on the most recent audited financial statements that include the Water Utility Fund, and (3) the City shall have filed with each Trustee an opinion of Bond Counsel to the effect that the removal of such part or parts of the Water System will not adversely affect the exclusion from-gross income for federal income tax purposes of the interest on Tax-Exempt Installment Payment Obligations.

Prompt Acquisition and Construction. The City shall take all necessary and appropriate steps to construct, acquire and install the Project, as agent of the Corporation, with all practicable dispatch and in an expeditious manner and in conformity with law so as to complete the same as soon as possible.

Maintenance and Operation of the Water System; Budgets. The City shall maintain and preserve the Water System in good repair and working order at all times and shall operate the Water System in an efficient and economical manner and will pay all Maintenance and Operation Costs of the Water System as they become due and payable. The City shall adopt and make available to the

Corporation, on or before the effective date of the Master Installment Purchase Agreement, a budget approved by the City Council of the City setting forth the estimated Maintenance and Operation Costs of the Water System for the period from such date until the close of the then-current Fiscal Year. On or before August 1 of each Fiscal Year, the City shall adopt, and on or before the day that is 120 days after the beginning of the Fiscal Year, make available to the Corporation a budget approved by the City Council of the City setting forth the estimated Maintenance and Operation Costs of the Water System for such Fiscal Year. Any budget may be amended at any time during any Fiscal Year and such amended budget shall be filed by the City with the Corporation.

Amount of Rates and Charges; Rate Stabilization Fund; Other Funds.

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

(b) The City may establish, as a fund within the Water Utility Fund, a fund denominated the "Rate Stabilization Fund." From time to time, the City may deposit into the Rate Stabilization Fund, from current System Revenues, such amounts as the City shall determine and the amount of available current System Revenues shall be reduced by the amount so transferred. Amounts may be transferred from the Rate Stabilization Fund solely and exclusively to pay Maintenance and Operation Costs of the Water System, and any amounts so transferred shall be deemed System Revenues when so transferred. All interest or other earnings upon amounts in the Rate Stabilization Fund may be withdrawn therefrom and accounted for as System Revenues.

(c) The City may establish, as a fund within the Water Utility Fund, a fund denominated the "Secondary Purchase Fund." From time to time, the City may deposit into the Secondary Purchase Fund, from any lawful source, which may or may not consist of current System Revenues, such amounts as the City shall determine, and the amount of available System Revenues shall be reduced by the amount so transferred, but only to the extent that amounts so transferred consist of then-current System Revenues. Amounts may be transferred from the Secondary Purchase Fund solely and exclusively to pay Maintenance and Operation Costs of the Water System, and any amounts so transferred shall be deemed System Revenues when so transferred. All interest or other earnings upon amounts in the Secondary Purchase Fund may be withdrawn therefrom and accounted for as System Revenues.

Payment of Claims. The City will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the System Revenues or any part thereof or on any funds in the hands of the City or the Trustee might impair the security of the Installment Payments, but the City shall not be required to pay such claims if the validity thereof shall be contested in good faith.

Compliance with Contracts. The City will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the Water System and all other contracts affecting or involving the Water System to the extent that the City is a party thereto.

Insurance.

(a) The City will procure and maintain or cause to be procured and maintained insurance on the Water System with responsible insurers, in such amounts and against such risks (including accident to or destruction of the Water System) as are usually covered in connection with water systems similar to the Water System, or it will self-insure or participate in an insurance pool or pools with reserves adequate, in the reasonable judgment of the City, to protect the Water System against loss. In the event of any damage to or destruction of the Water System caused by the perils covered by such insurance or self insurance, the Net Proceeds thereof shall be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Water System. The City shall begin such reconstruction, repair or replacement promptly after such damage or destruction shall occur, and shall continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and shall pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the Water System shall be free and clear of all claims and liens unless the City determines that such property or facility is not necessary to the efficient or proper operation of the Water System and therefore determines not to reconstruct, repair or replace such project or facility. If such Net Proceeds exceed the costs of such reconstruction, repair or replacement, then the excess Net Proceeds shall be deposited in the Water Utility Fund and be available for other proper uses of funds deposited in the Water Utility Fund.

(b) The City will procure and maintain such other insurance which it shall deem advisable or necessary to protect its interests and the interests of the Corporation, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with water systems similar to the Water System; provided that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and in the manner usually maintained in connection with water systems similar to the Water System.

(c) All policies of insurance required to be maintained under the Master Installment Purchase Agreement shall, to extent reasonably obtainable, provide that the Corporation and each Trustee shall be given 30 days' written notice of any intended cancellation thereof or reduction of coverage provided thereby. The City shall certify to the Corporation and each Trustee annually on or before August 31 that it is in compliance with the insurance requirements under the Indenture.

Accounting Records; Financial Statements and Other Reports.

(a) The City will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Water System, which records shall be available for inspection by the Corporation and the Trustee at reasonable hours and under reasonable conditions.

(b) The City will prepare and file with the Corporation annually (commencing with the Fiscal Year ending June 30, 2018), within 270 days of the close of each Fiscal Year, financial statements that include the Water Utility Fund for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report thereon.

(c) The City will furnish a copy of the financial statements referred to in paragraph (b) above to any Owner of the Certificates requesting a copy thereof, which may be in electronic form.

Payment of Taxes and Compliance with Governmental Regulations. The City shall pay and discharge all taxes, assessments and other governmental charges which may be lawfully imposed upon the Water System or any part thereof or upon the System Revenues when the same shall become due, except that the City may contest in good faith any taxes, assessments and other governmental charges so

long as the City shall have budgeted for the amount being contested and, if appropriate, such amount shall have been included as a Maintenance and Operation Costs of the Water System. The City shall duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Water System or any part thereof, but the City shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested by the City in good faith.

Collection of Rates and Charges; No Free Service. The City shall have in effect at all times rules and regulations for the payment of bills for Water Service. Such regulations may provide that where the City furnishes water to the property receiving Water Service, the Water Service charges shall be collected together with the water rates upon the same bill providing for a due date and a delinquency date for each bill. In each case where such bill remains unpaid in whole or in part after it becomes delinquent, the City may disconnect such premises from the Water System, and such premises shall not thereafter be reconnected to the Water System except in accordance with City operating rules and regulations governing such situations of delinquency. To the extent permitted by law, the City shall not permit any part of the Water System or any facility thereof to be used or taken advantage of free of charge by any authority, firm or person, or by any public agency (including the United States of America, the State and any city, county, district, political subdivision, public authority or agency thereof).

Eminent Domain Proceeds. If all or any part of the Water System shall be taken by eminent domain proceedings, then subject to the provisions of any Authorizing Ordinance, the Net Proceeds thereof shall be applied to the replacement of the property or facilities so taken, unless the City determines that such property or facility is not necessary to the efficient or proper operation of the Water System and therefore determines not to replace such property or facilities. Any Net Proceeds of such award not applied to replacement or remaining after such work has been completed shall be deposited in the Water Utility Fund and be available for other proper uses of funds deposited in the Water Utility Fund.

Tax Covenants. There shall be included in each Supplement relating to Tax-Exempt Installment Payment Obligations such covenants as are deemed necessary or appropriate by Bond Counsel for the purpose of assuring that interest on such Installment Payment Obligations shall be excluded from gross income under section 103 of the Code.

Subcontracting. Nothing contained in the Master Installment Purchase Agreement to the contrary shall prevent the City from delegating the power to be an operator of some or all of the Water System, even though the City continues to retain ownership of the Water System and its operations, and no such subcontracting arrangement shall relieve the City of any of its obligations under the Indenture. Prior to the effective date of any such delegation, the City shall deliver to the Trustee an opinion of Bond Counsel to the effect that the proposed delegation will not have an adverse effect on the exclusion from gross income for federal income tax purposes of the interest component of Tax-Exempt Installment Payment Obligations.

Additional Covenants Relating to the 2017 Commercial Paper Notes.

(a) The City shall not directly or indirectly use or permit the use of any proceeds of the 2017 Commercial Paper Notes or any other funds of the City or of the 2017 Commercial Paper Notes Components financed with 2017 Commercial Paper Notes or take or omit to take any action that would cause the 2017 Commercial Paper Notes to be "private activity bonds" within the meaning of Section 141 of the Code, or obligations that are "federally guaranteed" within the meaning of Section 149(b) of the Code.

(b) The City covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the 2017 Commercial Paper Notes under Section 103 of the Code. The City shall not directly or indirectly use or permit the use of any proceeds of the 2017 Commercial Paper Notes or any other funds of the City, or take or omit to take any action, that would cause the 2017 Commercial Paper Notes to be "arbitrage bonds" within the meaning of Section 148(a) of the Code. To that end, the City shall comply with all requirements of Section 148 of the Code to the extent applicable to the 2017 Commercial Paper Notes. If, at any time, the City is of the opinion that for purposes of this caption it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture or otherwise, then the City shall so instruct the Trustee in writing, and shall cause the Trustee to take such action as may be necessary in accordance with such instructions.

(c) Without limiting the generality of the foregoing, the City agrees that there shall be paid from time to time all amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code and any Treasury Regulations promulgated thereunder as may be applicable to the 2017 Commercial Paper Notes from time to time. This covenant shall survive payment in full or defeasance of the 2017 Commercial Paper Notes. The City specifically covenants to pay or cause to be paid to the United States of America at the times and in the amounts determined under this caption the rebate requirement, as described in the Tax Certificate, and to otherwise comply with the provisions of the Tax Certificate executed by the City and the Authority in connection with the execution and delivery of the 2017 Commercial Paper Notes.

(d) Notwithstanding any provision of this caption, if the City provides to the Trustee and the Issuing and Paying Agent an opinion of Bond Counsel to the effect that any action required under this caption is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the 2017 Commercial Paper Notes pursuant to Section 103 of the Code, then the City may rely conclusively on such opinion in complying with the provisions of this caption, and the covenants under this caption shall be deemed to be modified to that extent.

Prepayments of Installment Payments

Prepayment of Installment Payments. Provisions may be made in any Supplement for the prepayment of Installment Payments, in whole or in part, in such multiples and in such order of maturity and from funds of any source, and with such prepayment premiums and other terms as are specified in the Supplement. Said Supplement shall also provide for any notices to be given relating to such prepayment.

Assignment by Corporation. The Corporation irrevocably and absolutely assigns, transfers and conveys to the Collateral Agent and any successor thereto all of the rights, privileges, duties and obligations of the Corporation under the caption "Prepayment of Installment Payments" above. So long as a Collateral Agency Agreement is in effect, all references to the Corporation under the caption "Prepayment of Installment Payments" shall mean the Collateral Agent.

Events of Default and Remedies of the Corporation

Events of Default and Acceleration of Maturities. If one or more of the following Events of Default shall happen, that is to say:

(a) if default shall be made in the due and punctual payment of or on account of any Parity Obligation as the same shall become due and payable;

(b) if default shall be made by the City in the performance of any of the agreements or covenants required in the Master Installment Purchase Agreement to be performed by it (other than as specified in subsection (a) above), and such default shall have continued for a period of 60 days after the City shall have been given notice in writing of such default by the Corporation or any Trustee;

(c) if any Event of Default specified in any Supplement, Authorizing Ordinance or Issuing Instrument shall have occurred and be continuing; or

(d) if the City shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with the consent of the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property;

then, and in each and every such case during the continuance of such Event of Default, the Corporation shall upon the written request of the Owners of 25% or more of the aggregate principal amount of all Series of Parity Installment Obligations Outstanding, voting collectively as a single class, by notice in writing to the City, declare the entire unpaid principal amount thereof and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained in the Master Installment Purchase Agreement to the contrary notwithstanding; provided, that with respect to a Series of Parity Installment Obligations that is credit enhanced by a Credit Support Instrument, acceleration shall not be effective unless the declaration is consented to by the related Credit Provider. The foregoing provisions, however, are subject to the condition that if at any time after the entire principal amount of all Parity Installment Obligations and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the City shall deposit with the Corporation a sum sufficient to pay the unpaid principal amount of all such Parity Installment Obligations and the unpaid payments of any other Parity Obligations referred to in clause (a) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments at the rate or rates applicable thereto in accordance with their terms, and the reasonable expenses of the Corporation, and any and all other defaults known to the Corporation (other than in the payment of the entire principal amount of the unpaid Parity Installment Obligations and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Corporation or provision deemed by the Corporation to be adequate shall have been made therefor, then and in every such case the Corporation, by written notice to the City, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

As provided in the Indenture, so long as any Senior Bonds remain outstanding, no Owners of Subordinated Bonds shall have the right to declare an Event of Default, to declare any Bonds immediately due and payable, to direct the Trustee with respect to any Event of Default or to waive any Event of Default and, for such purposes, any reference to the Owners of a percentage of the principal amount of "Bonds then Outstanding" shall be deemed to refer to the Owners of such percentage of Senior Bonds then Outstanding.

The Owners of Subordinated Obligations may enforce the provisions of the Master Installment Purchase Agreement for their benefit by appropriate legal proceedings. The payment of Subordinated Obligations will be subordinate in right of payment to payment of the Parity Obligations (except for any payment in respect of Subordinated Obligations from the Reserve Fund securing such Subordinated

Obligations). Upon the occurrence and during the continuance of any Event of Default, Owners of Parity Obligations will be entitled to receive payment thereof in full before the Owners of Subordinated Obligations are entitled to receive payment thereof (except for any payment in respect of Subordinated Obligations from the Reserve Fund securing such Subordinated Obligations) and the Owners of the Subordinated Obligations will become subrogated to the rights of the Owners of Parity Obligations to receive payments with respect thereto.

So long as any Senior Bonds remain Outstanding, no amounts, other than amounts in the Subordinated Bonds Payment Fund and the Subordinated Bonds Reserve Fund, shall be applied to the payment of Subordinated Bonds.

Application of Net System Revenues Upon Acceleration. All Net System Revenues received after the date of the declaration of acceleration by the Corporation as provided in the Master Installment Purchase Agreement shall be applied in the following order:

(a) First, to the payment of the costs and expenses of the Corporation and the Trustee, if any, in carrying out the provisions of the Master Installment Purchase Agreement, including reasonable compensation to its accountants and counsel;

(b) Second, to the payment of the entire principal amount of the unpaid Parity Installment Obligations and the unpaid principal amount of all other Parity Obligations and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable thereto in accordance with their respective terms. In the event there are insufficient Net System Revenues to pay the entire principal amount of and accrued interest on all Parity Obligations, then accrued interest shall first be paid and any remaining amount shall be paid on account of principal, and in the event there are insufficient Net System Revenues to fully pay either interest or principal in accordance with the foregoing, then payment shall be prorated within a priority based upon the total amounts due in that priority; and

(c) Third, to the payment of the entire principal amount of the unpaid Subordinated Obligations and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable thereto in accordance with their respective terms. In the event there are insufficient Net System Revenues to pay the entire principal amount of and accrued interest on all Subordinated Obligations, then accrued interest shall first be paid and any remaining amount shall be paid on account of principal, and in the event there are insufficient Net System Revenues to fully pay either interest or principal in accordance with the foregoing, then payment shall be prorated within a priority based upon the total amounts due in that priority.

Discharge of Installment Payment Obligations

Discharge of Installment Payment Obligations. If the City shall pay or cause to be paid or there shall otherwise be paid to the Owners all Outstanding Installment Payment Obligations of a Series, the principal thereof and the interest and redemption premiums, if any, thereon or if all such Outstanding Installment Payment Obligations shall be deemed to have been paid at the times and in the manner stipulated in the applicable Issuing Instrument, then, as to any such Series, all agreements, covenants and other obligations of the City under the Indenture shall thereupon cease, terminate and become void and be discharged and satisfied, except for the obligation of the City to pay or cause to be paid all sums due under the Master Installment Purchase Agreement.

Miscellaneous

Liability of Authority Limited to Revenues and Subordinated Revenues.

(a) Notwithstanding anything contained in the Indenture, the Authority shall not be required to advance any money derived from any source of income other than the Revenues and the Subordinated Revenues, as provided in the Indenture for the payment of the interest on, or principal of, or premiums, if any, on the Bonds or for the performance of any agreements or covenants contained in the Master Installment Purchase Agreement. The Authority may, however, advance funds for any such purpose so long as such funds are derived from a source legally available for such purpose without incurring an indebtedness.

(b) The Senior Bonds shall be limited obligations of the Authority and shall be payable solely from the Revenues and amounts on deposit in the funds and accounts established under the Master Installment Purchase Agreement (other than amounts on deposit in the Subordinated Bonds Payment Fund, the Subordinated Bonds Reserve Fund and the Rebate Fund created pursuant to the Indenture). The Subordinated Bonds shall be limited obligations of the Authority and shall be payable solely from the Subordinated Bonds Revenues and amounts on deposit in the Subordinated Bonds Payment Fund and the Subordinated Bonds Reserve Fund. The Bonds do not constitute a debt or liability of the Authority, the City or of the State of California and neither the faith and credit of the Authority, the City nor of the State are pledged to the payment of the principal of or interest on the Bonds.

Amendments.

(a) The Master Installment Purchase Agreement may be amended with respect to a Series of Installment Payment Obligations in writing as may be mutually agreed by the City and the Corporation, with the written consent of any Credit Provider for any Installment Payment Obligations or, as to Installment Obligations for which there is no Credit Support Instrument, the Owners of a majority in aggregate principal amount of such Series of Installment Payment Obligations then Outstanding, provided that no such amendment shall (1) extend the payment date of any Installment Payment, or reduce the amount of any Installment Payment without the prior written consent of the Owner of each Obligation so affected; or (2) reduce the percentage of Installment Payment Obligations the consent of the Owners of which is required for the execution of any amendment of the Master Installment Purchase Agreement without the prior written consent of each of the Owners so affected.

(b) The Master Installment Purchase Agreement and the rights and obligations of the City and the Corporation thereunder may also be amended for supplemented at any time by an amendment or supplement to the Master Installment Purchase Agreement that shall not adversely affect the interests of the Owners of the Installment Payment Obligations and that shall become binding upon execution by the City and the Corporation, without the written consents of any Owner of Installment Payment Obligations or any Credit Provider, but only to the extent permitted by law and only upon receipt of an unqualified opinion of Bond Counsel to the effect that such amendment or supplement is permitted by the provisions of the Master Installment Purchase Agreement and is not inconsistent with the Master Installment Purchase Agreement and does not adversely affect the exclusion of the interest portion of the Installment Payments received by the Owners from gross income for federal income tax purposes, and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Corporation or the City contained in the Master Installment Purchase Agreement other covenants and agreements thereafter to be observed or to surrender any right or power in the Master Installment Purchase Agreement reserved to or conferred upon the Corporation or the City;

(2) to cure, correct or supplement any ambiguous or defective provision contained in the Master Installment Purchase Agreement or in regard to questions arising under the Master Installment Purchase Agreement, as the Corporation or the City may deem necessary or desirable;

(3) to make other amendments or modifications that shall not materially adversely affect the interests of the Owners of the Installment Payment Obligations;

(4) to provide for the issuance of Parity Installment Payment Obligations; and

(5) to provide for the issuance of Subordinated Obligations.

Net Contract. The Master Installment Purchase Agreement shall be deemed and construed to be a net contract, and the City shall pay absolutely net during the term thereof the Installment Payments arid all other payments required under the Indenture, free of any deductions and without abatement, diminution or setoff whatsoever.

Governing Law

The Master Installment Purchase Agreement will be governed by the laws of the State of California applicable to contracts made and performed in the State.

FIRST AMENDMENT TO AMENDED AND RESTATED MASTER INSTALLMENT PURCHASE AGREEMENT

The First Amendment to Amended and Restated Master Installment Purchase Agreement (the "First Amendment"), sets forth amendments to the Master Installment Purchase Agreement to clarify certain terms in connection with the appointment of a Collateral Agent to receive and administer the application of Net System Revenues pursuant to the herein described Collateral Agency, Account and Assignment Agreement, among other things. Certain provisions of the First Amendment are given and summarized below.

Role of Collateral Agent – Collection and Payment.

The Collateral Agent shall serve as agent of the Trustee and all Owners of Secured Obligations for purposes of receiving payments of Net System Revenues from the City and making payments on Obligations from Net System Revenues. The obligations of the City to make payments on Secured Obligations, including Installment Payments, to the Corporation, the Authority, the Trustee or any trustee or Owner pursuant to any Issuing Instrument shall be satisfied to the extent of payments made by the Collateral Agent to such entity pursuant to the terms of the Collateral Agency Agreement. In order to effect such payments, the City agrees to henceforth make payments to the Collateral Agent as provided under the caption "Allocation of System Revenues" below. Pursuant to the Collateral Agency Agreement, the Collateral Agent has agreed to allocate Net System Revenues received by it to the Owners of Obligations. Any Installment Payments or other payments on Obligations received by the Corporation shall be received in trust for the benefit of the Collateral Agent and the Corporation agrees to promptly transfer any such amounts received by it to the Collateral Agent.

Role of Collateral Agent – Enforcement.

The Collateral Agent shall have the right to exercise all of the rights and remedies described under "Appendix A – Master Installment Purchase Agreement – Prepayment of Installment Payments" as inuring to the Corporation, on behalf of and for the benefit of all Owners of Secured Obligations and any

trustee on their behalf, including the Trustee, under the First Amendment to Amended and Restated Master Installment Purchase Agreement, the Indenture or any other Issuing Instrument. Notwithstanding anything to the contrary set forth in the Master Installment Purchase Agreement, the Collateral Agency Agreement or any other Issuing Instrument, from and after the date of this First Amendment, the Corporation shall not have any rights, pursuant to the Master Installment Purchase Agreement, the Collateral Agency Agreement or any other Issuing Instrument, (a) as a grantee of a pledge of Net System Revenues, (b) to accelerate or otherwise declare any Obligations immediately due and payable, (c) to exercise any remedies by or on behalf of the Owners of any Obligations or otherwise with respect to the Net System Revenues following an Event of Default or (d) to receive and/or apply any Net System Revenues to the payment of any Obligations following an Event of Default, and any provisions purporting to provide such rights to the Corporation shall be null and void.

No Nullification of Assignments.

Nothing in the First Amendment to Amended and Restated Master Installment Purchase Agreement shall nullify or adversely affect any past, present or future assignment or pledge of the rights of the Corporation under the First Amendment to Amended and Restated Master Installment Purchase Agreement to the Authority or to the Trustee.

COLLATERAL AGENCY, ACCOUNT AND ASSIGNMENT AGREEMENT

The Collateral Agency, Account and Assignment Agreement (the "Collateral Agency Agreement") provides for, among other things, the appointment of a Collateral Agent to receive and apply Net System Revenues to the payment of Obligations of the City and the assignment of all rights and remedies of the Corporation, on behalf of and for the benefit of the Owners of Secured Obligations under the Indenture, the First Amendment, or any other issuing instrument, to the Collateral Agent. Certain definitions and provisions of the Collateral Agency Agreement are given and summarized below.

DEFINITIONS

Account

"Account" means an account established under the caption "Establishment of Funds and Accounts" below.

Borrower

"Borrower" means the City of San Diego, a municipal corporation organized and existing under its Charter duly adopted pursuant to the provisions of the Constitution of the State of California.

Class

"Class" means any group of Holders that, collectively, hold a single series, tranche or other identifiable category of Obligations under a single credit agreement, loan agreement, note purchase agreement, indenture or other evidence of indebtedness.

Collateral

"Collateral" means all of the interests of the Borrower in (a) the Net System Revenues and (b) the Funds, the Accounts and any subaccounts (other than the Parity Obligations Reserve Account and the Subordinated Obligations Reserve Account) including all amounts on deposit therein or credited thereto.

Corporation

"Corporation" means the San Diego Facilities and Equipment Leasing Corporation, a nonprofit public benefit corporation organized and existing under and by virtue of the laws of the State of California.

Counterpart

"Counterpart" means a Counterpart to the Collateral Agency Agreement in the form of Exhibit C attached thereto.

Fund

"Fund" means a fund established under the caption "Establishment of Funds and Accounts" below.

Holder Representative

"Holder Representative" means any agent, trustee or other representative appointed by a Class of Holders to act on their behalf pursuant to the terms of an Issuing Instrument relating to the Obligations held by such Class of Holders.

Holder or Holders

"Holder" or "Holders" means the holders of or lenders under Secured Obligations including, without limitation, any such holder or lender that has executed the Collateral Agency Agreement, but excluding the Corporation and the Authority, and any Person who becomes such a holder or lender under Secured Obligations including, without limitation, any Person that becomes a party to the Collateral Agency Agreement pursuant to execution of a Counterpart; provided, however, that with respect to certain applicable sections of the Collateral Agency Agreement, "Holder" or "Holders" shall mean and refer to the Holder Representative for each Class that has a Holder Representative and not to the individual Holders of such Class.

Master Installment Purchase Agreement

"Master Installment Purchase Agreement" means Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, as amended and supplemented, by and between the City and Corporation.

Net System Revenues

"Net System Revenues" means, for any Fiscal Year, the System Revenues for such Fiscal Year, less the Maintenance and Operation Costs of the Water System for such Fiscal Year.

Parity Obligation Holders

"Parity Obligation Holders" means the holders of or lenders under Parity Obligations.

Parity Obligation Interest Payment Date

"Parity Obligation Interest Payment Date" means the date any interest is due and payable on any Parity Obligation.

Parity Obligation Principal Payment Date

"Parity Obligation Principal Payment Date" means the date any principal or mandatory sinking fund redemptions are due and payable with respect to any Parity Obligation.

Parity Obligations

"Parity Obligations" means Obligations the payment of which is secured by a first priority lien on and pledge of Net System Revenues pursuant to the caption "Amendments to the Master Installment Purchase Agreement – Commitment of the Net System Revenues" under the First Amendment to Amended and Restated Master Installment Purchase Agreement and the caption "Lien and Pledge" below.

Parity Obligations Reserve Account

"Parity Obligations Reserve Account" means the account of that name established and maintained by the Collateral Agent under the caption "Establishment of Funds and Accounts" below.

Parity Obligations Reserve Fund

"Parity Obligations Reserve Fund" means each reserve fund established under an Issuing Instrument and held by a Holder Representative or other trustee, fiscal agent or Person designated by an Issuing Instrument to establish and maintain a reserve account or fund for the benefit of the Holders of Parity Obligations issued or incurred under such Issuing Instrument.

Payment Date

"Payment Date" means each date that is a Parity Obligation Interest Payment Date, a Parity Obligation Principal Payment Date, a Subordinated Obligation Interest Payment Date or a Subordinated Obligation Principal Payment Date.

Person

"Person" means any corporation, partnership, trust, limited liability company, financial institution, insurance company, pension fund, mutual fund, government agency or natural person.

Pro Rata Amount

"Pro Rata Amount" means, with respect to any payment to be made to a Holder under the caption "Application of Net System Revenues and Other Amounts" below from funds held by the Collateral Agent in the applicable Account, an amount equal to the total amount of funds held by the Collateral Agent in such Account and available to make such payment to all Holders entitled to receive such payment multiplied by the quotient of the amount of such payment due and payable on such date to such Holder divided by the amount of such payment due and payable on such date to all Holders entitled to receive such payment.

Required Holders

"Required Holders" has the meaning provided under the caption "Remedies" below.

Reserve Requirement

"Reserve Requirement" means, with respect to each Parity Obligations Reserve Fund (if any) and each Subordinated Obligations Reserve Fund (if any), the amount required to be maintained therein by the Issuing Instrument under which such Parity Obligations Reserve Fund or Subordinated Obligations Reserve Fund is mandated and established.

Subordinated Obligation Holders

"Subordinated Obligation Holders" means the holders of or lenders under Subordinated Obligations.

Subordinated Obligation Interest Payment Date

"Subordinated Obligation Interest Payment Date" means the date any interest is due and payable on any Subordinated Obligation.

Subordinated Obligation Principal Payment Date

"Subordinated Obligation Principal Payment Date" means the date any principal or mandatory sinking fund redemptions are due and payable with respect to any Subordinated Obligation.

Subordinated Obligations

"Subordinated Obligations" means Obligations the payment of which is secured by a second priority lien on and pledge of Net System Revenues that is junior and subordinate to the lien on and pledge of Net System Revenues securing Parity Obligations pursuant to subsection (b) under the caption "Amendments to the Master Installment Purchase Agreement – Commitment of the Net System Revenues" under the First Amendment to Amended and Restated Master Installment Purchase Agreement and the caption "Lien and Pledge" below.

Subordinated Obligations Reserve Account

"Subordinated Obligations Reserve Account" means the account of that name established and maintained by the Collateral Agent under the caption "Establishment of Funds and Accounts" below.

Subordinated Obligations Reserve Fund

"Subordinated Obligations Reserve Fund" means each reserve fund established under an Issuing Instrument and held by a Holder Representative or other trustee, fiscal agent or Person designated by an Issuing Instrument to establish and maintain a reserve account or fund for the benefit of the Holders of Subordinated Obligations issued or incurred under such Issuing Instrument.

WIFIA Lender

"WIFIA Lender" means the United States Environmental Protection Agency, an agency of the United States of America, acting by and through the Administrator of the Environmental Protection Agency.

Except as otherwise defined in the Collateral Agency Agreement, all terms defined in the Master Installment Purchase Agreement shall have the same meaning for the purposes of the Collateral Agency Agreement as in the Master Installment Purchase Agreement.

Appointment.

U.S. Bank National Association is appointed as the collateral agent for the benefit of the Holders. The Collateral Agent accepts such appointment and agrees to act as the Collateral Agent in accordance with the Collateral Agency Agreement and the Master Installment Purchase Agreement.

Each of the Holders authorizes and directs the Collateral Agent to act in strict accordance with the terms of the Collateral Agency Agreement and the Master Installment Purchase Agreement. Subject to the terms of the Collateral Agency Agreement, the Collateral Agent agrees, for the benefit of the Holders, to administer and enforce the Collateral Agency Agreement as Collateral Agent, and, among other remedies, to foreclose upon, collect and dispose of the Collateral and to apply the proceeds therefrom, for the benefit of the Holders, as provided in the Collateral Agency Agreement, and otherwise to perform its duties and obligations as the Collateral Agent under the Collateral Agency Agreement in accordance with its terms.

The Collateral Agent shall be fully justified in failing or refusing to take any action under the Collateral Agency Agreement unless the Collateral Agent shall first receive written direction from the Required Holders and is indemnified by the Borrower to its reasonable satisfaction, including the indemnification from the Borrower pursuant to the provisions under the caption "Collateral Agency Agreement – Liability of the Collateral Agent," from and against any liability or expense related thereto. Subject to the foregoing, the Collateral Agent shall act under the Collateral Agency Agreement in accordance with any written directions by the Required Holders. The Collateral Agent shall not incur any liability for any determination made or instruction or direction given by the Required Holders.

The Collateral Agent may conclusively rely upon the information provided to it by the Borrower pursuant to the Collateral Agency Agreement regarding the identity of the Holders unless a different Holder is identified in writing to the Collateral Agent by the Borrower.

Lien and Pledge.

(a) All Parity Obligations, including Parity Installment Payment Obligations, shall be secured by a first priority lien on and pledge of Net System Revenues. The City grants to the Collateral Agent, for the benefit of the Holders of Parity Obligations, a first priority lien on and pledge of Net System Revenues to secure Parity Obligations. All Parity Obligations shall be of equal rank with each other without preference, priority or distinction of any Parity Obligations over any other Parity Obligations; provided that a Parity Obligation that by its terms under certain circumstances can require the full amount of the Parity Obligation to become payable in installments over not less than five years from the occurrence of the triggering event shall not be deemed to create any impermissible preference, priority or distinction as to lien or otherwise of such Parity Obligation over any other Parity Obligation.

(b) All Subordinated Obligations, including Subordinated Installment Payment Obligations, shall be secured by a second priority lien on and pledge of Net System Revenues that is junior and subordinate to the lien on and pledge of Net System Revenues securing Parity Obligations. The City grants to the Collateral Agent, for the benefit of the Holders of Subordinated Obligations, a second priority lien on and pledge of Net System Revenues to secure Subordinated Obligations. All Subordinated Obligations shall be of equal rank with each other without preference, priority or distinction of any Subordinated Obligations over any other Subordinated Obligations; provided that a Subordinated Obligation that by its terms under certain circumstances can require the full amount of the Subordinated Obligation to become payable in installments over not less than five years from the triggering event shall not be deemed to create any impermissible preference, priority or distinction as to lien or otherwise of such Subordinated Obligation over any other Subordinated Obligation; and provided further that a

Subordinated Obligation that by its terms under certain circumstances must be treated as, or becomes, a Parity Obligation shall not be deemed to create any impermissible preference, priority or distinction as to lien or otherwise of such Subordinated Obligation over any other Subordinated Obligation.

(c) The City grants to the Collateral Agent, for the benefit of the Holders of Parity Obligations, a first priority lien on and pledge of the Funds and Accounts established under the caption "Establishment of Funds and Accounts" below and any and all amounts held therein, or credited thereto, to secure the Parity Obligations; provided that any amounts held in or credited to the Parity Obligations Reserve Account shall be held solely for the benefit of and payment to the Holders of the Class of Obligations for which Parity Obligations Reserve Funds have been established pursuant to the Issuing Instrument under which such Class of Obligations was created. The City grants to the Collateral Agent, for the benefit of the Holders of Subordinated Obligations, a second priority lien on and pledge of the Funds and Accounts established under the caption "Establishment of Funds and Accounts" below and any and all amounts held therein, or credited thereto, to secure the Subordinated Obligations; provided that any amounts held in or credited to the Subordinated Obligations Reserve Account shall be held solely for the benefit of and payment to the Holders of the Class of Obligations for which such Subordinated Obligations Reserve Funds have been established pursuant to the Issuing Instrument under which such Class of Obligations was created.

(d) The Collateral Agent may, but shall not be obligated to, take such action as it deems necessary to perfect or continue the perfection of the security interests on the Collateral held for the benefit of the Holders. The Collateral Agent shall not release any of the Collateral except upon payment in full of all Secured Obligations.

Establishment of Funds and Accounts.

There are established in the custody of the Collateral Agent the following Funds and Accounts to be held and maintained by the Collateral Agent for the benefit of the Holders, in accordance with the Collateral Agency Agreement:

(a) the Parity Obligations Payment Fund, in which there shall be established:

(i) the Parity Obligations Interest Account;

(ii) the Parity Obligations Principal Account; and

(iii) the Parity Obligations Reserve Account; and

(b) the Subordinated Obligations Payment Fund, in which there shall be established:

(i) the Subordinated Obligations Interest Account;

(ii) the Subordinated Obligations Principal Account; and

(iii) the Subordinated Obligations Reserve Account.

The Collateral Agent is further directed to establish within the Funds and Accounts established above such accounts and subaccounts as may be requested in writing by the Borrower for each Class of Obligations. All funds on deposit in the Accounts and the subaccounts therein shall remain uninvested; provided that upon written direction from the Borrower to the Collateral Agent amounts held overnight may be invested in Permitted Investments until applied pursuant to the provisions under the captions

"Collateral Agency Agreement – Application of Net System Revenues and Other Amounts" and "Collateral Agency Agreement – Application of Net System Revenues Upon Acceleration." Earnings on any investment amounts held in each Account under the provisions of this caption shall be credited to such Account. The Collateral Agent shall not be liable for any loss on any investments of amounts held under the provisions of this caption or for complying with any written direction concerning investments which the Collateral Agent reasonably believes to be authorized by the Borrower.

Application of Net System Revenues and Other Amounts.

(a) The Borrower shall collect and deposit all System Revenues when and as received in the Water Utility Fund and shall make each of the transfers of Net System Revenues from the Water Utility Fund to the Collateral Agent for deposit in the Accounts set forth under the caption "Collateral Agency Agreement – Establishment of Funds and Accounts" pursuant to the provisions under the caption "Amendments to the Master Installment Purchase Agreement – Allocation of System Revenues."

(b) The Collateral Agent shall make the following withdrawals, transfers and payments from the Accounts in the amounts, at the times and for the purposes specified in this caption.

(i) Parity Obligations Interest Account. On each Parity Obligation Interest Payment Date and on each other date on which the following amounts shall be due and payable, the Collateral Agent shall pay to the Holders of Parity Obligations, from the Parity Obligations Interest Account, the interest due and payable, including any amounts overdue and payable, on such date to Holders of Parity Obligations; provided that if the amount on deposit in the Parity Obligations Interest Account is insufficient therefor, the Collateral Agent shall pay each Parity Obligation Holder a Pro Rata Amount.

(ii) Parity Obligations Principal Account. On each Parity Obligation Principal Payment Date and on each other date on which the following amounts shall be due and payable, the Collateral Agent shall pay to the Holders of Parity Obligations, from the Parity Obligations Principal Account, the principal and mandatory sinking fund redemptions due and payable, including any amounts overdue and payable, on such date to Holders of Parity Obligations; provided that if the amount on deposit in the Parity Obligations Principal Account is insufficient therefor, the Collateral Agent shall pay each Parity Obligation Holder a Pro Rata Amount.

(iii) Parity Obligations Reserve Account. On each Parity Obligation Interest Payment Date, the Collateral Agent shall transfer to the holder of each Parity Obligations Reserve Fund (if any) the amount set forth in a written direction of the Borrower, which shall be no more than the amount necessary so that the balance therein equals the applicable Reserve Requirement; provided that if the amount on deposit in the Parity Obligations Reserve Account is insufficient therefor, the Collateral Agent shall transfer to each holder of a Parity Obligations Reserve Fund a Pro Rata Amount; and provided further that in the event of any draw on a Reserve Fund Credit Facility held in any Parity Obligations Reserve Fund, there shall be deemed a deficiency in such Parity Obligations Reserve Fund until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount.

(iv) Subordinated Obligations Interest Account. On each Subordinated Obligation Interest Payment Date and on each other date on which the following amounts shall be due and payable, the Collateral Agent shall pay to the Holders of Subordinated Obligations, from the Subordinated Obligations Interest Account, the interest due and payable, including any amounts overdue and payable, on such date to Holders of Subordinated Obligations; provided that if the

amount on deposit in the Subordinated Obligations Interest Account is insufficient therefor, the Collateral Agent shall pay each Subordinated Obligation Holder a Pro Rata Amount.

(v) Subordinated Obligations Principal Account. On each Subordinated Obligation Principal Payment Date and on each other date on which the following amounts shall be due and payable, the Collateral Agent shall pay to the Holders of Subordinated Obligations, from the Subordinated Obligations Principal Account, the principal and mandatory sinking fund redemptions due and payable, including any amounts overdue and payable, on such date to Holders of Subordinated Obligations; provided that if the amount on deposit in the Subordinated Obligations Principal Account is insufficient therefor, the Collateral Agent shall pay each Subordinated Obligation Holder a Pro Rata Amount.

(vi) Subordinated Obligations Reserve Account. On each Subordinated Obligation Interest Payment Date, the Collateral Agent shall transfer to the holder of each Subordinated Obligations Reserve Fund (if any) the amount set forth in a written direction of the Borrower, which shall be no more than the amount necessary so that the balance therein equals the applicable Reserve Requirement; provided that if the amount on deposit in the Subordinated Obligations Reserve Account is insufficient therefor, the Collateral Agent shall transfer to each holder of a Subordinated Obligations Reserve Fund a Pro Rata Amount; and provided further that in the event of any draw on a Reserve Fund Credit Facility held in any Subordinated Obligations Reserve Fund, there shall be deemed a deficiency in such Subordinated Obligations Reserve Fund until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount.

(c) For the avoidance of doubt nothing in the Collateral Agency Agreement or the Master Installment Purchase Agreement affects or diminishes the Holders' rights and remedies under their respective Issuing Instruments, including any right in such Issuing Instrument to accelerate amounts due under the applicable Secured Obligations.

Remedies.

During the continuance of an Event of Default under the Master Installment Purchase Agreement, (including, without limitation, any Event of Default specified in any Supplement, Authorizing Ordinance or Issuing Instrument) the Collateral Agent shall upon the written direction of the Holders (or, in the case of any Class that has a Holder Representative, the Holder Representative of such Class) of 25% or more of the aggregate principal amount of all Series of Parity Installment Obligations Outstanding, or after all Parity Installment Obligations have been paid in full, the Holders (or, in the case of any Class that has a Holder Representative, the Holder Representative of such Class) of 25% or more of the aggregate principal amount of all Series of Subordinated Obligations Outstanding (the "Required Holders"), voting collectively as a single class, by notice in writing to the City, declare the entire unpaid principal amount of all Series of Parity Installment Obligations (or all Subordinated Obligations, as the case may be) and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained in the Collateral Agency Agreement or in the Master Installment Purchase Agreement to the contrary notwithstanding; provided, that with respect to a Series of Parity Installment Obligations (or Series of Subordinated Obligations, as the case may be) which is credit enhanced by a Credit Support Instrument, acceleration shall not be effective unless the declaration is consented to by the related Credit Provider. The foregoing provisions, however, are subject to the condition that if at any time after the entire principal amount of all Parity Installment Obligations (or all Subordinated Obligations, as the case may be) and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the City shall deposit with the Collateral Agent a sum sufficient to pay the unpaid principal amount of all such Parity Installment Obligations (or all such Subordinated Obligations,

as the case may be) and the unpaid payments of any other Parity Obligations (or Subordinated Obligations, as the case may be) due prior to such declaration and the accrued interest thereon, with interest on such overdue installments at the rate or rates applicable thereto in accordance with their terms, and the reasonable fees and expenses of the Collateral Agent including, without limitation fees and expenses of the attorneys, agents and advisors of the Collateral Agent, and any and all other defaults known to the Collateral Agent (other than in the payment of the entire principal amount of the unpaid Parity Installment Obligations (or unpaid Subordinated Obligations, as the case may be) and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Collateral Agent or provision deemed by the Collateral Agent to be adequate shall have been made therefor, then and in every such case the Collateral Agent, by written notice to the City, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Subject to the above provisions, the Holders of Subordinated Obligations may enforce the provisions of the Master Installment Purchase Agreement or the applicable Issuing Instrument for their benefit by appropriate legal proceedings. The payment of Subordinated Obligations will be subordinated in right of payment to payment of the Parity Obligations (except for any payment in respect of Subordinated Obligations from the Reserve Fund securing such Subordinated Obligations). Upon the occurrence and during the continuance of any Event of Default, Holders of Parity Obligations will be entitled to receive payment thereof in full before the Holders of Subordinated Obligations are entitled to receive payment thereof (except for any payment in respect of Subordinated Obligations from the Reserve Fund securing such Subordinated Obligations) and the Holders of the Subordinated Obligations will become subrogated to the rights of the Holders of Parity Obligations to receive payments with respect thereto.

Application of Net System Revenues Upon Acceleration.

After the date of the declaration of acceleration by the Collateral Agent as provided under the caption "Remedies" above, the City shall transfer, promptly upon receipt and after payment of Maintenance and Operation Costs of the Water System then due and payable, all Net System Revenues from the Water Utility Fund to the Collateral Agent, and the Collateral Agent shall promptly apply such Net System Revenues in the following order:

(a) First, to the payment of the fees, costs and expenses of the Collateral Agent, if any, in carrying out the provisions of the Collateral Agency Agreement, including reasonable compensation to its agents, accountants and counsel;

(b) Second, to the payment of the entire principal amount of the unpaid Parity Installment Obligations and the unpaid principal amount of all other Parity Obligations and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable thereto in accordance with their respective terms. In the event there are insufficient Net System Revenues to pay the entire principal amount of and accrued interest on all Parity Obligations, then accrued interest shall first be paid and any remaining amount shall be paid on account of principal, and in the event there are insufficient Net System Revenues to fully pay either interest or principal in accordance with the foregoing, then payment shall be prorated within a priority based upon the total amounts due in that priority; and

(c) Third, to the payment of the entire principal amount of the unpaid Subordinated Obligations and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable thereto in accordance with their respective terms. In the event there are insufficient

Net System Revenues to pay the entire principal amount of and accrued interest on all Subordinated Obligations, then accrued interest shall first be paid and any remaining amount shall be paid on account of principal, and in the event there are insufficient Net System Revenues to fully pay either interest or principal in accordance with the foregoing, then payment shall be prorated within a priority based upon the total amounts due in that priority.

Other Remedies of the Collateral Agent.

The Collateral Agent (acting at the direction of the Required Holders) shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce, on behalf of the Holders, the rights of the Holders against the City or any councilmember, officer or employee thereof, and to compel the City or any such councilmember, officer or employee to perform and carry out its or his duties under the Law and the agreements and covenants required to be performed by it or him contained in the Collateral Agency Agreement;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Holders; or

(c) by suit in equity upon the happening of an Event of Default to require the City and its councilmembers, officers and employees to account as the trustee of an express trust.

Non-Waiver.

(a) Nothing in the Collateral Agency Agreement shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the Installment Payments to the Collateral Agent at the respective due dates or upon prepayment from the Net System Revenues and the other funds committed in the Collateral Agency Agreement for such payment, or shall affect or impair the right of the Collateral Agent, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Collateral Agency Agreement.

(b) A waiver of any default or breach of duty or contract by the Collateral Agent shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies of the Collateral Agent or the Holders on any such subsequent default or breach of duty or contract. No delay or omission by the Collateral Agent to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Collateral Agent by the Law or by the Collateral Agency Agreement may be enforced and exercised from time to time and as often as shall be deemed expedient by the Collateral Agent.

(c) If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Collateral Agent, the City and the Collateral Agent shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive.

No remedy conferred upon or reserved to the Collateral Agent is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Collateral Agency Agreement or now or hereafter existing in law or in equity or by

statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by law.

Assignment by Corporation.

The Corporation irrevocably and absolutely assigns, transfers and conveys to the Collateral Agent and any successor thereto all of the rights, privileges, duties and obligations of the Corporation under the provisions contained in "Appendix A – Master Installment Purchase Agreement – Events of Default and Remedies of the Corporation."

Rights of the Corporation.

Notwithstanding anything to the contrary set forth in the Collateral Agency Agreement, the Master Installment Purchase Agreement or any other Issuing Instrument, from and after the date of the Collateral Agency Agreement, the Corporation shall not have any rights, pursuant to the Collateral Agency Agreement, the Master Installment Purchase Agreement or any other Issuing Instrument, (a) as a grantee of a pledge of Net System Revenues, (b) to accelerate or otherwise declare any Obligations immediately due and payable, (c) to exercise any remedies by or on behalf of the Holders (or Owners) or otherwise with respect to the Net System Revenues following an Event of Default or (d) to receive and/or apply any Net System Revenues to the payment of any Obligations following an Event of Default, and any provisions purporting to provide such rights to the Corporation shall be null and void. The City purchases projects from the Corporation under the Master Installment Purchase Agreement and each Master Installment Purchase Agreement Supplement in consideration of Installment Payments by the City to the Corporation. The Corporation unconditionally, irrevocably and absolutely assigns and transfers to the Authority its rights to such Installment Payments pursuant to Assignment Agreements. Nothing in the Collateral Agency Agreement shall nullify or adversely affect any past, present or future assignment or transfer of the rights of the Corporation to receive Installment Payments under the Master Installment Purchase Agreement or any Master Installment Purchase Agreement Supplement to the Authority or any pledge, assignment or transfer of such rights by the Authority to the Trustee.

Termination.

The Collateral Agency Agreement shall terminate upon the payment in full of all Obligations. Upon termination, any amount remaining in all Funds, Accounts and subaccounts under the Collateral Agency Agreement shall immediately be transferred by the Collateral Agent to the Borrower or its assignees.

Resignation and Removal.

The Collateral Agent may at any time resign by giving at least thirty (30) days written notice to the Borrower and each Holder, and the Collateral Agent may be removed by the Borrower and all Holders at any time with or without cause, but neither such resignation nor removal shall take effect until the appointment of a successor Collateral Agent. In the event of any resignation or removal of the Collateral Agent, a successor Collateral Agent shall be appointed by an instrument in writing executed by the Collateral Agent, the Borrower and each Holder that is a party to the Collateral Agency Agreement. Such successor Collateral Agent shall indicate its acceptance of such appointment by an instrument in writing delivered to the Borrower and each Holder. Upon delivery of such instrument, such successor Collateral Agent shall, without any further act or deed, be fully vested with all the powers, rights, duties and obligations of the Collateral Agent under the Collateral Agency Agreement and the predecessor Collateral Agent shall deliver all moneys and securities held by it under the Collateral Agency Agreement to such successor Collateral Agent.

Assignment by Collateral Agent.

The services to be performed by the Collateral Agent are personal in character and neither the Collateral Agency Agreement nor any duties or obligations under the Collateral Agency Agreement may be assigned or delegated by the Collateral Agent unless first approved by the Borrower and each Holder that is a party to the Collateral Agency Agreement by written instrument executed and approved in the same manner as the Collateral Agency Agreement.

Liability of the Collateral Agent.

(a) The Collateral Agent incurs no liability to make any disbursements pursuant to the Collateral Agency Agreement except from funds held in the Accounts. At all times, whether or not a default by the Borrower shall have occurred and be continuing, the Collateral Agent shall perform only such actions as are expressly set forth in the Collateral Agency Agreement, and no implied duties or responsibilities shall be imposed upon the Collateral Agent. The Collateral Agent may consult with counsel and the advice or opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered under the Collateral Agency Agreement in good faith reliance upon and in accordance with such advice or opinion of counsel.

(b) The Collateral Agent shall not be liable with respect to any action taken, suffered or omitted by it in good faith: (i) reasonably believed by it to be authorized or within the discretion or rights or powers conferred on it by the Collateral Agency Agreement; or (ii) in accordance with any written direction or request of the Borrower or the Holders. In the absence of willful misconduct or gross negligence on its part, the Collateral Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any requisition, note, notice, resolution, consent, facsimile, certificate, affidavit, letter, telegram, teletype message, statement, order or other document which appears on its face to be genuine and correct and to have been signed or sent by the proper person or persons.

(c) No provisions of the Collateral Agency Agreement shall require the Collateral Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Collateral Agency Agreement, or in the exercise of any of its authority. The Collateral Agent shall not be liable for losses on investments made at the direction of the Borrower or otherwise made in accordance with the Collateral Agency Agreement. Before taking any action under the Collateral Agency Agreement, the Collateral Agent shall have the right, but not the obligation, to demand any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, in addition to that required as a condition to such action, deemed desirable by the Collateral Agent in establishing the necessity or appropriateness of such action. The Collateral Agent may rely and be protected in relying on any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party, and shall not be required to make any investigation into the facts or matters contained therein. If it chooses to make such inquiry, the Collateral Agent shall have access to the books, records or premises of the Borrower, personally or through agents of the Collateral Agent or attorneys, at any reasonable time upon reasonable notice.

(d) The Collateral Agent shall bear no responsibility for the recitals contained in the Collateral Agency Agreement. The Collateral Agent may execute any of its powers or perform its duties through attorneys, agents or receivers. The Collateral Agent shall be under no obligation to exercise any of the rights or powers vested in the Collateral Agent by the Collateral Agency Agreement unless the Collateral Agent has received from the Borrower security or indemnity against the costs, expenses and liabilities which might be incurred by the Collateral Agent in compliance with such request or direction.

In acting as Collateral Agent under the Collateral Agency Agreement, the Collateral Agent acts solely in its capacity as Collateral Agent under the Collateral Agency Agreement and not in its individual or personal capacity. The Collateral Agent shall be entitled to conclusively rely and act upon and in compliance with the written instructions or directions of the Borrower or the Holders, as applicable.

(e) To the extent permitted by law, the Borrower hereby agrees to indemnify the Collateral Agent and its respective officers, employees and agents against any loss, liability, action, suit, judgment, demand or cost (each a "Liability") and to pay or reimburse the Collateral Agent for any expense (including counsel fees and disbursements and, allocated costs of in-house counsel) which may be incurred by the Collateral Agent or any officer, employee or agent thereof by reason of, or in connection with, the Collateral Agent's appointment and its duties as Collateral Agent, except such Liability as shall result from Collateral Agent' gross negligence or willful misconduct in the performance of its other obligations and duties under the Collateral Agency Agreement. The obligation of the Borrower under this paragraph shall survive the resignation or removal of the Collateral Agent.

(f) In no event shall the Collateral Agent be liable for incidental, indirect, special, consequential or punitive damages or penalties (including, but not limited to lost profits), even if the Collateral Agent has been advised of the likelihood of such damages or penalty and regardless of the form of action, except in the case of its own negligence or willful misconduct. The Collateral Agent shall not be responsible for delays or failures in performance resulting from acts beyond its control, including without limitation, acts of God, strikes, lockouts, riots, acts of war or terror, epidemics, fire, communication line failures, computer viruses, intrusions or attacks, power failures, earthquakes or other disasters.

Successors and Assigns.

The Collateral Agency Agreement shall be binding upon, and inure to the benefit of, the parties to the Collateral Agency Agreement and their respective successors, heirs, administrators and assigns, subject to the provisions under the caption "Collateral Agency Agreement – Assignment b Collateral Agent" above in the case of the Collateral Agent.

Non-Liability of Borrower Officials, Employees and Agents.

Notwithstanding anything to the contrary in the Collateral Agency Agreement, no council member, officer, employee or agent of the Borrower shall be personally liable to the Collateral Agent, its successors and assigns, in the event of any default or breach by Borrower or for any amount which may become due to the Collateral Agent, its successors and assigns, or for any obligation of the Borrower under the Collateral Agency Agreement.

Severability.

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

Amendment.

The Collateral Agency Agreement may not be amended except by a written instrument executed by (i) the Collateral Agent, the Borrower, the Corporation, the Authority and each Holder that is a party to the Collateral Agency Agreement, including any Holder that becomes a party through execution of a Counterpart; and (ii) each other Holder; provided that the consent of any Holder not party to the Collateral Agency Agreement will not be required for any amendment or modification to (a) cure any

ambiguity, defect or inconsistency, (b) make any change that would provide additional rights or benefits to all Holders, (c) make, complete or confirm any grant of Collateral for the benefit of all Holders, (d) correct any typographical errors, drafting mistakes or other similar mistakes that do not modify the rights, benefits and obligations of the parties to the Collateral Agency Agreement, (e) provide for additional obligations of the Borrower or liens on the Collateral securing such obligations to the extent permitted by the terms of the Secured Obligations or (f) upon receipt by the Collateral Agent of an opinion of counsel selected by the Borrower and addressed to the Collateral Agent and the Borrower to the effect that such amendment or modification will not materially adversely affect the interests of the Holders that are not parties to the Collateral Agency Agreement.

Governing Law.

The Collateral Agency Agreement shall be construed in accordance with the laws of the State of California.

Additional Parties.

Any Holder may become a party to the Collateral Agency Agreement upon (i) the execution and delivery by such Holder to the Collateral Agent and the Borrower of a Counterpart and (ii) the acknowledgment and acceptance of such Counterpart by the Collateral Agent and the Borrower. Thereupon, such Holder shall be as fully a party to the Collateral Agency Agreement as if such Holder were an original signatory to the Collateral Agency Agreement. The Collateral Agent shall distribute copies of each executed, acknowledged and accepted Counterpart to each Holder that is a party to the Collateral Agency Agreement and each other Holder that has requested such copies at the address provided to the Collateral Agent for such purpose, including such addresses as are specified in the Collateral Agency Agreement.

Thirty Party Beneficiaries.

All undertakings, agreements, representations and warranties contained in the Collateral Agency Agreement are solely for the benefit of each Holder, including without limitation the Holders executing the Collateral Agency Agreement and any additional Holder that becomes a party thereto pursuant to the caption "Collateral Agency Agreement – Additional Parties" above. Any Holder not executing the Collateral Agency Agreement or a Counterpart is nonetheless entitled to the full rights, privileges and benefits thereof to the same extent as if such Holder were a signatory thereof and shall be a third party beneficiary of the Collateral Agency Agreement. There are no other Persons that are intended to be benefited in any way by the Collateral Agency Agreement.

Permitted Investments.

Amounts held overnight in the Funds and Accounts established under the provisions under the caption "Collateral Agency Agreement – Establishment of Funds and Accounts" may be invested until applied pursuant to the provisions under the captions "Collateral Agency Agreement – Application of Net System Revenues and Other Amounts" and " – Application of Net System Revenues Upon Acceleration" in any cash sweep or similar account arrangement of or available to the Collateral Agent, the investments of which are limited to investments described in clauses (1), (2), (3) and (5) below and any money market fund, the entire investments of which are limited to investments described in clauses (1), (2), (3) and (4) below and which money market fund is rated, at the time of purchase, by at least one national statistical rating organization in its highest rating category (without regard to any refinement or gradation of such rating category by a plus or minus sign or a numeral).

(1) Federal Securities or Federal Certificates where:

"Federal Securities" means direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or evidence of ownership in a portion thereof (which may consist of specified portions of interest thereon and obligations of the Resolution Funding Corporation which constitute interest strips) if held by a custodian on behalf of the Collateral Agent; obligations the principal of and interest on which are unconditionally guaranteed by the United States of America; and pre-refunded municipal obligations rated, at the time of purchase, by Moody's Investors Service and Standard & Poor's Ratings Services in their highest rating category (without regard to any refinement or gradation of such rating category by a plus or minus sign or a numeral); provided that "structured securities" (including flip notes, range notes, inverse floaters and step-ups) will not be considered Federal Securities; provided further that floaters (based on single, interest rate based indices) and callable securities of the above-enumerated agencies may be treated as Federal Securities; and

"Federal Certificates" means evidences of indebtedness or ownership of proportionate interests in future principal and interest payments of Federal Securities, including depository receipts thereof, wherein (i) a bank or trust company acts as custodian and holds the underlying Federal Securities; (ii) the owner of the Federal Certificate is a real party in interest with the right to proceed directly and individually against the obligor of the underlying Federal Securities; and (iii) the underlying Federal Securities are held in trust in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian or any person claiming through the custodian, or any person to whom the custodian may be obligated.

(2) The following listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

(A) Federal Home Loan Mortgage Corporation (FHLMC) senior debt obligations and Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts);

(B) Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) consolidated system-wide bonds and notes;

(C) Federal Home Loan Banks (FHL Banks) consolidated debt obligations;

(D) Federal National Mortgage Association (FNMA) senior debt obligations and mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts);

(E) The senior debt obligations of Resolution Funding Corporation (RFCO), Financing Corporation (FICO) and Tennessee Valley Authority (TVA);

(3) Obligations of any state, territory or commonwealth of the United States of America or any political subdivision thereof or any agency or department of the foregoing, that are rated, at the time of purchase, in the highest rating category (without regard to any refinement or gradation of such rating category by a plus or minus sign or a numeral) by two national statistical rating organizations.

(4) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International

Finance Corporation, or Inter-American Development Bank. Investments under this subdivision shall be rated "AA" or better by a national statistical rating organization.

(5) Any repurchase agreement: (A) with (i) any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Collateral Agent), or a state-licensed branch of a foreign bank, having a minimum permanent capital of one hundred million dollars ($100,000,000) and having short-term debt which is rated, at the time of the purchase, by two national statistical rating organizations in one of the three highest short-term rating categories; or (ii) any government bond dealer reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York; and (B) which agreement is secured by any one or more of the securities and obligations described in clause (1) or (2) above and having maturities equal to or less than 5 years from the date of delivery, which shall have a market value (valued at least monthly) not less than 102% of the principal amount of such investment and shall be placed with the Collateral Agent or other fiduciary, as custodian for the Collateral Agent, by the bank, trust company, national banking association or bond dealer executing such repurchase agreement. The entity executing each such repurchase agreement required to be so secured shall furnish the Collateral Agent with an undertaking satisfactory to the Collateral Agent that the aggregate market value of all such obligations securing each such repurchase agreement (as valued at least monthly) will be an amount equal to 102% the principal amount of such repurchase agreement, and the Collateral Agent shall be entitled to rely on each such undertaking.

2018 SUPPLEMENT

The 2018 Supplement to Amended and Restated Master Installment Purchase Agreement (the "2018 Supplement"), sets forth certain terms and conditions of the purchase of the 2018 Components of the Project by the City. Certain provisions of the 2018 Supplement are given and summarized below:

Sale and Purchase of 2018 Components.

In consideration of the agreement by the City to make 2018 Subordinated Installment Payments, the Corporation will sell, transfer, and assign the 2018 Components to the City and the City will agree to purchase and accept the 2018 Components.

2018 Subordinated Installment Payments.

In consideration of the payment by the Authority, on behalf of the Corporation, of the proceeds of the 2018 Bonds and the sale of the 2018 Components by the Corporation to the City pursuant to the 2018 Supplement, the City agrees to pay a portion of the Purchase Price on each 2018 Subordinated Installment Payment Date as 2018 Subordinated Installment Payments, solely from Net System Revenues, as provided in the Master Installment Purchase Agreement.

Subordinated Obligations.

The 2018 Subordinated Installment Payments shall be Subordinated Obligations under the Master Installment Purchase Agreement and the payment of the 2018 Subordinated Installment Payments shall be on parity in right of payment to the Subordinated Installment Payments under the Master Installment Purchase Agreement. No Owner of the Obligations shall have any right to take any action or enforce any right that has a materially adverse effect on the interests of the Owners of the Master Installment Payment Obligations.

Additional Covenants Relating to Tax Exemption.

(a) The City shall not directly or indirectly use or permit the use of any proceeds of the 2018 Bonds or any other funds of the City or of the 2018 Components or take or omit to take any action that would cause the 2018 Bonds to be "private activity bonds" within the meaning of Section 141 of the Code, or obligations that are "federally guaranteed" within the meaning of Section 149(b) of the Code.

(b) The City covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the 2018 Bonds under Section 103 of the Code. The City shall not directly or indirectly use or permit the use of any proceeds of the 2018 Bonds or any other funds of the City, or take or omit to take any action, that would cause the 2018 Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code. To that end, the City shall comply with all requirements of Section 148 of the Code to the extent applicable to the 2018 Bonds. If, at any time, the City is of the opinion that for purposes of this section it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture or otherwise, then the City shall so instruct the Trustee in writing, and shall cause the Trustee to take such action as may be necessary in accordance with such instructions.

(c) Without limiting the generality of the foregoing, the City will agree that there shall be paid from time to time all amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code and any Treasury Regulations promulgated thereunder as may be applicable to the 2018 Bonds from time to time. This covenant shall survive payment in full or defeasance of the 2018 Bonds. The City will covenant to pay or cause to be paid to the United States of America at the times and in the amounts determined under this section the rebate requirement, as described in the Tax Certificate, and to otherwise comply with the provisions of the Tax Certificate executed by the City and the Authority in connection with the execution and delivery of the 2018 Bonds.

(d) Notwithstanding any provision of this caption, if the City provides to the Trustee an opinion of Bond Counsel to the effect that any action required under this section is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the 2018 Bonds pursuant to Section 103 of the Code, then the City may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenants under the Installment Purchase Agreement shall be deemed to be modified to that extent.

The Authority covenants and agrees to comply with the terms of that certain Tax Certificate delivered on the 2018 Closing Date with respect to the 2018 Bonds, it being acknowledged and agreed that Bond Counsel will rely upon the same in delivering its opinion respecting the tax status of the 2018 Bonds.

Continuing Disclosure.

The City covenants and agrees in the 2018 Supplement that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate to be executed and delivered by the City in connection with the issuance of the 2018 Bonds. Notwithstanding any other provision of the 2018 Supplement, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered a default of any kind under the 2018 Supplement; provided, however, that the Trustee may (and, at the request of any participating underwriter or the Owners of at least twenty-five percent (25%) in aggregate principal amount of the Outstanding 2018 Bonds, shall), or any Owner or Beneficial Owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under such Continuing Disclosure Certificate. For purposes of this paragraph, "Beneficial Owner" means any person that has or

shares the power, directly or indirectly, to make investment decisions concerning ownership of any 2018 Bond (including, any persons holding any 2018 Bond through nominees, depositories, or other intermediaries).

APPENDIX B

FORM OF APPROVING OPINION OF BOND COUNSEL

Upon the issuance of the 2018 Bonds, Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, is expected to render its final approving opinion with respect to the 2018 Bonds in substantially the following form:

Public Facilities Financing Authority
of the City of San Diego
San Diego, California

The City of San Diego
San Diego, California

Ladies and Gentlemen:

We have acted as Bond Counsel to the Public Facilities Financing Authority of the City of San Diego (the "Authority") in connection with the issuance of $243,180,000 aggregate principal amount of its Subordinated Water Revenue Bonds, Series 2018A (Payable Solely From Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the "Bonds") pursuant to Article 4 (commencing with Section 6584, known as the Marks-Roos Local Bond Pooling Act of 1985) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Government Code"), the Indenture, dated as of January 1, 2009 (the "Original Indenture"), as amended and supplemented, including as supplemented by the Sixth Supplemental Indenture, dated as of December 1, 2018 (the "Sixth Supplemental Indenture" and together with the Original Indenture and all other amendments and supplements thereto, the "Indenture"), each by and between the Authority and U.S. Bank National Association, as successor trustee (the "Trustee"), and Resolution No. FA-2018-8 of the Board of Commissioners of the Authority. The Bonds are payable from 2018 Subordinated Installment Payments payable by The City of San Diego, California (the "City") to the San Diego Facilities Equipment Leasing Corporation (the "Corporation") pursuant to the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009 (the "Original Master Installment Purchase Agreement"), as amended and supplemented, including as supplemented by the 2018 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of December 1, 2018 (the "2018 Supplement" and, together with the Original Master Installment Purchase Agreement and all other amendments and supplements thereto, the "Master Installment Purchase Agreement"), each by and between the City and the Corporation, and other assets pledged therefor under the Indenture.

The Corporation has assigned its rights under the 2018 Supplement to the Authority pursuant to the Assignment Agreement, dated as of December 1, 2018 (the "Assignment Agreement"), by and between the Corporation and the Authority. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture and the Master Installment Purchase Agreement.

In such connection, we have reviewed the Indenture, the Master Installment Purchase Agreement, the Assignment Agreement, the Tax Certificate, dated the date hereof (the "Tax Certificate), executed by the Authority and the City, certificates of the Authority, the City, the Corporation, the Trustee and others, opinions of the City Attorney, General Counsel to the Authority, counsel to the Corporation and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Master Installment Purchase Agreement, the Assignment Agreement, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

We are of the opinion that:

1. The Bonds constitute the valid and binding limited obligations of the Authority, enforceable in accordance with their terms and the terms of the Indenture.

2. The Sixth Supplemental Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

3. The 2018 Supplement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the City, enforceable against the City in accordance with its terms. The Master Installment Purchase Agreement, including as supplemented by the 2018 Supplement, creates a valid pledge of Net System Revenues to secure the payment of 2018 Subordinated Installment Payments to the Authority, on the terms and conditions set forth therein.

4. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below (a) interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (b) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the Bonds in order that, for federal income tax purposes, interest on the Bonds be not included in gross income pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of proceeds of the Bonds, restrictions on the investment of proceeds of the Bonds prior to expenditure and the requirement that certain earnings be rebated to the federal government. Noncompliance with such requirements may cause interest on the Bonds to become subject to federal income taxation retroactive to their date of issue, irrespective of the date on which such noncompliance occurs or is ascertained.

On the date of delivery of the Bonds, the Authority and the City will execute a Tax Certificate containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, the Authority and the City covenant that Authority and the City will comply with the provisions and procedures set forth therein and that the Authority and the City will do and perform all acts and things necessary or desirable to assure that interest paid on the Bonds will, for federal income tax purposes, be excluded from gross income.

In rendering the opinion in paragraph 5 hereof, we have relied upon and assumed (a) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate with respect to matters affecting the status of interest paid on the

Bonds, and (b) compliance by the Authority and the City with the procedures and covenants set forth in the Tax Certificate as to such tax matters.

5. Under existing statutes, interest on the Bonds is exempt from State of California personal income taxes.

We express no opinion as to any other federal, state or local tax consequences arising with respect to the Bonds or the ownership or disposition thereof, except as stated in paragraphs 4 and 5 above. We render our opinion under existing statutes and court decisions as of the date hereof, and assume no obligation to update, revise or supplement our opinion to reflect any action hereafter taken or not taken, any fact or circumstance that may hereafter come to our attention, any change in law or interpretation thereof that may hereafter occur, or for any other reason. We express no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, we express no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the Bonds.

We undertake no responsibility for the accuracy, completeness or fairness of any official statement or other offering materials relating to the Bonds and express herein no opinion relating thereto.

The foregoing opinions are qualified to the extent that the enforceability of the Bonds, the Indenture, the Master Installment Purchase Agreement and the Tax Certificate may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies and are subject to general principals of equity (regardless of whether such enforceability is considered in equity or at law), to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. In addition, the imposition of certain fees and charges by the City relating to the Water System is subject to the provisions of Articles XIIIC and XIIID of the California Constitution.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

Very truly yours,

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APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate, dated as of January 1, 2019 (the "Disclosure Certificate"), is executed and delivered by the City of San Diego (the "City") in connection with the issuance by the Public Facilities Financing Authority of the City of San Diego (the "Authority") of $243,180,000 Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Bonds, Series 2018A (Payable Solely From Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the "Bonds"). The Bonds are being issued pursuant to the Indenture (as defined herein). In connection therewith, the City, as an "obligated person" with respect to the Bonds (within the meaning of the Rule, as defined herein), covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City on behalf of the Authority for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

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

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

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean the City and any Person designated by the City to serve as Dissemination Agent.

"Holder" shall mean the person in whose name any Bond shall be registered.

"Indenture" shall mean the Indenture, dated as of January 1, 2009, as amended and supplemented by a First Supplemental Indenture, dated as of June 1, 2009, a Second Supplemental Indenture, dated as of June 1, 2010, a Third Supplemental Indenture, dated as of April 1, 2012, a Fourth Supplemental Indenture, dated as of June 1, 2016, a Fifth Supplemental Indenture dated as of January 1, 2017, and a Sixth Supplemental Indenture dated as of January 1, 2019, each by and between the Authority and U.S. Bank National Association, as successor trustee.

"MSRB" shall mean the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system.

"Notice Event" shall mean any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

"Official Statement" shall mean the Official Statement, dated December 12, 2018, prepared and distributed in connection with the initial sale of the Bonds.

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

"Person" shall mean any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time, and including any official interpretations thereof issued either before or after the effective date of this Certificate which are applicable to this Certificate.

Section 3. Provision of Annual Reports.

(a) The City shall, or upon written direction, shall cause the Dissemination Agent (if other than the City) to, not later than April 10 after the end of the City's Fiscal Year (which currently ends June 30), or the next succeeding business day if that day is not a business day, commencing with the report for the fiscal year ending June 30, 2019 (each, a "Filing Date"), provide to the MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. As of the date of this Disclosure Certificate, the format prescribed by the MSRB is the Electronic Municipal Market Access ("EMMA") system.

The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Filing Date for the filing of the Annual Report if not available by such Filing Date. If the City's Fiscal Year changes, it shall give notice of such change in the same manner as for a Notice Event under Section 5(c) hereof.

(b) Not later than fifteen (15) business days prior to each Filing Date for providing the Annual Report to the MSRB, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If the City is unable to provide to the MSRB an Annual Report by the Filing Date, the City shall, in a timely manner, send a notice to the MSRB.

(c) The Dissemination Agent (if other than the City) shall:

(i) determine each year prior to the date for providing the Annual Report the format for filing with the MSRB; and

(ii) file a report with the City certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Certificate, and stating the date the Annual Report was so provided.

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

(a) The audited financial statements of the City for the most recently completed Fiscal Year prepared in accordance with generally accepted accounting principles as applicable to state and local governments in the United States of America. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the

Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

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

(i) An update of the information substantially in the form contained in Table 2 (entitled "Historical Number of Retail Connections to Water System") for the most recently completed Fiscal Year;

(ii) An updated of the information substantially in the form contained in Table 3 (entitled "Water Deliveries") for the most recently completed Fiscal Year;

(iii) An update of the information substantially in the form contained in Table 4 (entitled "Major Retail Customers") for the most recently completed Fiscal Year;

(iv) An update of the information substantially in the form contained in Table 5 (entitled "Raw Water Reservoirs") for the most recently completed Fiscal Year;

(v) An update of the information substantially in the form contained in Table 6 (entitled "Capacity and Demand of Water System Water Treatment Plants") for the most recently completed Fiscal Year;

(vi) An update of the information substantially in the form contained in Table 7 (entitled "Water Supplies for the City of San Diego") for the most recently completed Fiscal Year;

(vii) An update of the information substantially in the form contained in Table 8 (entitled "CWA Water Supply Rates") for the most recently completed Fiscal Year;

(viii) An update of the information substantially in the form contained in Table 9 (entitled "MWD and CWA Fixed Water Supply Costs") for the most recently completed Fiscal Year;

(ix) An update of the information substantially in the form contained in Table 13 (entitled "Five-Year Water Service Charge History for Single Family Residential, Multi-Family Residential, Non-Residential, Irrigation, and Temporary Construction") for the most recently completed Fiscal Year;

(x) An update of the information substantially in the form contained in Table 14 (entitled "Water Utility Fund Historical Capacity Charge Revenues") for the most recently completed Fiscal Year;

(xi) An update of the information substantially in the form contained in Table 15 (entitled "Water Customer Accounts Receivable and Shut-Offs by Fiscal Year") for the most recently completed Fiscal Year;

(xii) An update of the information substantially in the form contained in Table 16 (entitled "Historical Sources of Water Sales Revenues") for the most recently completed Fiscal Year;

(xiii) An update of the information substantially in the form contained in Table 17 (entitled "Statements of Revenues, Expenses, and Changes in Fund Net Position for the Water Utility Fund") for the most recently completed Fiscal Year;

(xiv) An update of the information substantially in the form contained in Table 18 (entitled "Reserves and Total Cash and Cash Equivalents In Water Utility Fund") for the most recently completed Fiscal Year;

(xv) An update of the information substantially in the form contained in Table 19 (entitled "Calculation of Historic Debt Service Coverage") for the most recently completed Fiscal Year (will be available in the City's comprehensive annual financial report for the most recently completed fiscal year or updated information will be presented in tabular format comparable to referenced table);

(xvi) An update of the information substantially in the form contained in Table 21 (entitled "Outstanding Debt") for the most recently completed Fiscal Year;

(xvii) An update of the information substantially in the form contained in Table 23 (entitled "Water Utility Fund Liability claims Budget and Expenditures");

(xviii) An update of the information substantially in the form contained in Table 26 (entitled "City of San Diego Schedule of Funding Progress") for the most recently completed Fiscal Year;

(xix) An update of the information substantially in the form contained in Table 27 (entitled "City of San Diego and Water Utility Fund Pension Contribution") for the most recently completed Fiscal Year;

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to the MSRB. The City shall clearly identify each such other document so included by reference.

The contents, presentation and format of the Annual Reports may be modified from time to time as determined in the judgment of the City to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the City or to reflect changes in the business, structure, operations, legal form of the City or any mergers, consolidations, acquisitions or dispositions made by or affecting the City; provided that any such modifications shall comply with the requirements of the Rule.

Section 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, in a timely manner not later than ten (10) business days after the occurrence of such Notice Event to the MSRB through EMMA:

(i) Principal and interest payment delinquencies;

(ii) Unscheduled draws on debt service reserves reflecting financial difficulties;[1]

(iii) Unscheduled draws on credit enhancements reflecting financial difficulties;

(iv) Substitution of credit or liquidity providers, or their failure to perform;[2]

(v) Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

(vi) Tender offers;

(vii) Defeasances;

(viii) Rating changes;[3] or

(ix) Bankruptcy, insolvency, receivership or similar event of the City (such event being considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City).

(b) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, not later than ten (10) business days after the occurrence of the such Notice Event to the MSRB through EMMA:

(i) Unless described in paragraph 5(a)(5), other notices or determinations with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds;

(ii) Modifications to rights of holders of the Bonds;

(iii) Bond calls;[4]

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[1] Without limiting its reporting obligation, the City advises that it has not established a debt service reserve fund for the Bonds.

[2] Without limiting its reporting obligation, the City advises that it has not obtained or provided any credit enhancement or credit or liquidity providers for the Bonds.

[3] Does not include rating changes related to credit enhancement added by a Holder. In addition, the City's obligation to provide notice of any rating change shall be deemed to be satisfied if the applicable rating agency files such change with EMMA pursuant to the "automated data feeds" that have been established by the MSRB.

[4] Any scheduled redemption of Bonds pursuant to mandatory sinking fund redemption requirements does not constitute a Notice Event within the meaning of the Rule.

(iv) Release, substitution, or sale of property securing repayment of the Bonds;

(v) Non-payment related defaults;

(vi) The consummation of a merger, consolidation, or acquisition the City or the sale of all or substantially all of the assets thereof, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

(vii) Appointment of a successor or additional trustee or the change of name of a trustee.

(c) If the City learns of the occurrence of a Notice Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the City shall promptly file, or cause to be filed, a notice of such event with the MSRB through EMMA. Notwithstanding the foregoing, notice of the Notice Events described in subsections (a)(vii) or (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

Section 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption, or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such in the same manner as for a Notice Event under Section 5(c).

Section 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the City. The Dissemination Agent, if other than the City, shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

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

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

(c) The amendment or waiver (i) is approved by the Holders majority of outstanding principal amount of the Bonds, in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Notice Event under subsection 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

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

Section 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate; provided that any Beneficial Owner seeking to require the City to comply with this Certificate shall first provide at least 30 days' prior written notice to the City of the City's failure, giving reasonable detail of such failure, following which notice the City shall have 30 days to comply. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damages under this Certificate.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Governing Law. This Disclosure Certificate shall be governed by the laws of the State of California and the federal securities laws.

IN WITNESS WHEREOF, the City of San Diego has executed this Continuing Disclosure Certificate as of the date first set forth herein.

THE CITY OF SAN DIEGO

By: _____
Chief Financial Officer

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APPENDIX D

INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM

The following description of DTC and its book-entry system has been provided by DTC and has not been verified for accuracy or completeness by the City or the Authority, and neither the City nor the Authority shall have any liability with respect thereto. Neither the City nor the Authority shall have any responsibility or liability for any aspects of the records maintained by DTC relating to or payments made on account of beneficial ownership, or for maintaining, supervising, or reviewing any records maintained by DTC relating to beneficial ownership, of interests in the 2018 Bonds.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2018 Bonds. The 2018 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond will be issued for each issue of the 2018 Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com, provided that nothing contained in such website is incorporated into this Official Statement.

Purchases of 2018 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2018 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2018 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2018 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2018 Bonds, except in the event that use of the book-entry system for the 2018 Bonds is discontinued.

To facilitate subsequent transfers, all 2018 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2018 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2018 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2018 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2018 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2018 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Indenture and the Master Installment Purchase Agreement. For example, Beneficial Owners of 2018 Bonds may wish to ascertain that the nominee holding the 2018 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2018 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2018 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2018 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2018 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2018 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bonds are required to be printed and delivered. The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bonds will be printed and delivered to DTC.

The information in this Official Statement concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and the City believes to be reliable, but the Authority and the City takes no responsibility for the accuracy thereof.

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APPENDIX E

CITY OF SAN DIEGO COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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The City *of*

SAN DIEGO

State of California

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2018

2018

0315

City of San Diego

State of California

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2018

Prepared Under the Supervision of:

Rolando Charvel, CPA, Chief Financial Officer

Tracy McCraner, Comptroller

Scott Clark, CPA, Assistant Director

Sarah Mayen, CPA, Assistant Director

COVER: Dome of St. Francis Chapel and Bell Tower, Balboa Park, San Diego

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INTRODUCTORY SECTION (UNAUDITED)

FINANCIAL SECTION

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Fiscal Year Ended June 30, 2018

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Fiscal Year Ended June 30, 2018

STATISTICAL SECTION (UNAUDITED)

FORWARD-LOOKING STATEMENTS

The Comprehensive Annual Financial Report (CAFR) of the City of San Diego for the fiscal year ended June 30, 2018, including the Letter of Transmittal and Management's Discussion and Analysis, contains forward-looking statements regarding the City of San Diego's (City) business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in the CAFR. Additionally, statements concerning future matters such as City budgets and the financial outlook for future years, the level of City services, California state matters that may impact the City, contingencies, revenue and expense levels, expected completion dates for projects and other statements regarding matters that are not historical are also forward-looking statements.

Although forward-looking statements in the CAFR reflect the City's good faith judgment, such statements can only be based on facts and factors currently known by the City. Consequently, forward-looking statements are inherently subject to risks and uncertainties. The actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of the CAFR. The City undertakes no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of the CAFR. Readers are urged to carefully review and consider the various disclosures made in the CAFR which attempt to advise interested parties of factors that may affect the business, financial condition, results of operations and prospects of the City.

INTRODUCTORY SECTION (UNAUDITED)

Embarcadero Marina Park, San Diego, CA

The City of SAN DIEGO

December 7, 2018

To the Honorable Mayor, Members of the City Council and Residents of the City of San Diego:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of San Diego (City) for the fiscal year (FY) ended June 30, 2018, in accordance with Section 111 of the City Charter (Charter).

The CAFR has been prepared in accordance with accounting principles generally accepted in the United States of America. The City's management is responsible for the accuracy of the data, the completeness and fairness of the presentation and the adequacy of its disclosures. This includes the design, implementation and maintenance of internal controls over the preparation and fair presentation of financial statements that are free from material misstatement and for assurance that the assets of the City are protected from loss, theft or misuse. Because the cost of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free from any material misstatements. We believe that the information presented is complete and reliable in all material respects.

The independent audit firm of Macias Gini & O'Connell LLP has audited the fiscal year 2018 financial statements of the City and has issued an unmodified opinion on the basic financial statements. The independent auditor's report is located at the front of the financial section of this report.

A narrative introduction, overview and analysis of the financial statements can be found in the Management's Discussion and Analysis (MD&A), which immediately follows the independent auditor's report. The MD&A complements this letter of transmittal and both should be read in conjunction. The notes, along with the other financial and operational data included in the City's CAFR, must be read in their entirety to obtain a complete understanding of the City's financial position as of June 30, 2018 and the respective changes in its financial position. Readers of these financial statements should pay particular attention to Notes 12, 13, 17, and 18, concerning Pension Plans, Other Postemployment Benefits, Commitments and Contingencies, respectively. These notes address certain issues underlying the City's financial condition as well as future potential or anticipated expenses/expenditures related to regulatory and environmental costs.

The financial statements included in this report present the balances and activity of the City and its blended, discretely presented and fiduciary component units. Blended component units are presented as funds of the City and include not-for-profit public benefit corporations and other financing authorities. In addition, the CAFR includes the San Diego Housing Commission, a discretely presented component unit. Fiduciary component units include the San Diego City Employees' Retirement System (SDCERS) and the Successor Agency of the Redevelopment Agency of the City of San Diego. See Note 1a of the financial statements for more information on the reporting entities of the City.

It is important to note that the General Fund's presentation in the CAFR is different from the presentation in the City's annual budget. The General Fund in the CAFR incorporates the balances and activity of additional special revenue funds which are not included as part of the General Fund and are reported as separate funds in the budget. All references to the General Fund in the narrative below are based on the General Fund as reported in the CAFR.

PROFILE OF THE CITY OF SAN DIEGO

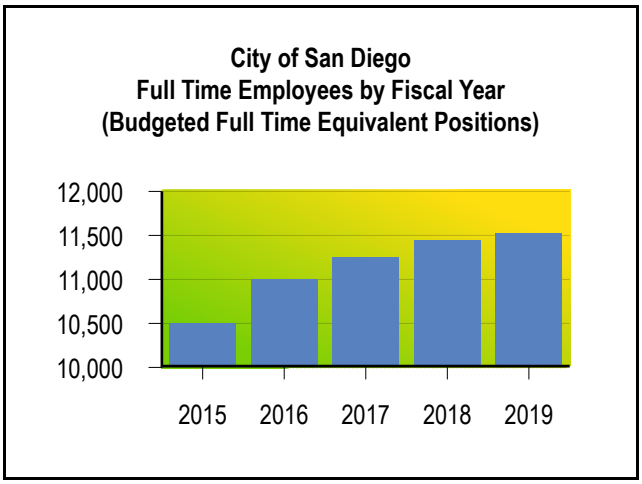
The City, incorporated in 1850, covers 325 square miles of land area and an additional 47 square miles of water area for an aggregate total 372 square miles. The California Department of Finance estimated the City's population to be 1,419,845 as of January 2018, making it the eighth most populated city in the nation and the second most populated city in California.

The City operates under and is governed by the laws of the State of California and its own Charter, as periodically amended since its adoption by the electorate in 1931. The City operates under a Strong-Mayor form of government. The Mayor is elected at large to serve a four-year term and may serve up to two consecutive terms. The City Council is composed of nine members who are elected to staggered four-year terms and who are limited to two consecutive terms. The City Council is presided over in open meetings by the Council President, who is selected by a majority vote of the City Council. The Mayor presides over closed session meetings of the City Council. The City Attorney, who is elected to a four-year term, serves as the chief legal advisor and attorney for the City and all departments. The City Attorney is also limited to two consecutive terms in office.

Under the Strong-Mayor form of government, the Mayor is the Chief Executive Officer of the City and has direct oversight of all City functions and services except for the City Council, Personnel, City Clerk, Independent Budget Analyst (IBA), City Attorney, Ethics Commission and City Auditor departments. Under this form of government, the Council has legislative authority; however, all City Council resolutions and ordinances are subject to a veto of the Mayor except for certain ordinances including emergency declarations and the City's annual Salary and Appropriations Ordinances. The City Council may override a Mayoral veto with six votes.

CITY SERVICES

The City, with 11,545 budgeted Full-Time Equivalent (FTE) positions in fiscal year 2019, provides a full range of governmental services. The City has been able to restore and enhance services during the past several years, increasing budgeted staff from fiscal year 2014 to fiscal year 2018 by 1,318. In the fiscal year 2019 Adopted Budget, the City added 126 positions. The increase in positions is primarily focused on support for the Clean SD initiative and the City's multi-billion dollar Capital Improvements Program, including progress on the critical Pure Water Program and Storm Water improvements.



The City provides safety services to its residents and visitors, including police and fire protection, emergency medical treatment and lifeguard services. Neighborhood services include parks and recreation, library, arts and culture, refuse collection, waste management, economic development, and planning. The City operates and maintains the water and sewer utilities, the Montgomery-Gibbs Executive Airport and Brown Field general aviation airports, and the SDCCU Stadium. It also administers the Petco Park joint use and management agreement between the City and the Padres baseball team. The City's public works program improves and adds to the City's existing infrastructure including buildings, parks, roads, sidewalks, street lights, bridges, storm water, and distribution and collection systems for sewer and water.

BUDGETING SYSTEMS AND CONTROLS

The budget is created each fiscal year by the Mayor and presented to the City Council and the public by April 15, as required by the Charter. After a series of public meetings, input from the City Council and City residents, the Mayor proposes revisions to the originally proposed budget, as necessary. The Charter requires that on or before June 15, the City Council approve the budget as submitted by the Mayor or with modifications to the proposed budget. Within five business days of City Council's approval, the Mayor has the discretion to line-item veto any budget modifications

approved by the City Council. In turn, the City Council has five business days within which to override the Mayor's veto. The Appropriation Ordinance that enacts the budget into law is based on the approved budget and the adopted Salary Ordinance. The City Charter requires that City Council adopt the Appropriation Ordinance for the following year by June 30. All subsequent amendments to the adopted budget require City Council approval except as delegated in the Appropriation Ordinance.

Budgetary control is established at the highest level by the Charter and further defined by the City Council through the annual Appropriation Ordinance. Budgetary control is exercised at the department level for the General Fund and at the fund level for all other funds. In addition, the budget authorized for personnel expenditures (salaries and wages) for a fund or department may not be used for non-personnel expenditures. The City's financial system incorporates embedded controls in which non-personnel expenditures cannot be incurred if a budget appropriation is not available. The City also uses an encumbrance system of accounting as a mechanism to accomplish effective budgetary control.

The City's Department of Finance (DoF) monitors fund balances, as well as revenue and expenditure projections throughout the fiscal year. The DoF prepares monthly and periodic reports to the City Council that summarize the year-to-date financial activity of the General Fund and other budgeted funds. Additionally, the DoF prepares an analysis of actual and projected financial activity for the entire fiscal year on a quarterly basis by issuing three budget monitoring reports during the year (First Quarter, Mid-Year, and Year-End Budget Monitoring Reports). Subsequent to the end of the fiscal year, the DoF prepares a report analyzing and explaining variances between year-end projections and unaudited year-end actual revenues and expenditures for the General Fund.

LOCAL ECONOMY

The State of California Employment Development Department (EDD) estimates the total civilian labor force for the San Diego/Carlsbad Metropolitan Statistical Area (MSA), which represents San Diego County, is approximately 1.61 million, of which about 1.49 million are non-farm jobs (see footnote 2 below). Between October 2017 and October 2018, total non-farm employment increased by 26,000 jobs, or 1.8%. The unemployment rate in the San Diego/Carlsbad MSA was 3.3% in October 2018, below the prior year estimate of 3.6%. This compares with an unadjusted unemployment rate of 4.0% for California and 3.5% for the nation during the same period. The following table provides estimates of total annual civilian non-farm employment by number of employees in each major industry category in the San Diego/Carlsbad MSA for 2016 through 2018.

San Diego / Carlsbad MSA [1]
Civilian Non-Farm Labor Force by Industry Sector

Industry Sector	2016	2017	2018	2018
Professional & Business Services	232,000	237,100	253,500	17.0%
Leisure & Hospitality	195,500	198,200	194,200	13.0%
Government				
State & Local Government	199,700	203,000	206,300	13.8%
Federal Government	47,100	49,600	47,100	3.2%
Healthcare & Social Assistance	170,900	176,100	181,100	12.1%
Trade				
Retail Trade	148,000	147,600	148,200	9.9%
Wholesale Trade	48,400	48,100	46,600	3.1%
Manufacturing	109,500	109,500	115,100	7.7%
Financial Activities	73,700	75,200	74,200	5.0%
Construction	81,100	81,100	80,900	5.4%
Other	136,200	140,600	144,900	9.8%
Total Non-Farm [2]	1,442,100	1,466,100	1,492,100	100.0%

[1] Based on California Employment Development Department data for the San Diego/Carlsbad Metropolitan Statistical Area for the month of October of each corresponding year (March 2017 Benchmark). Data excludes military uniformed personnel.

[2] Non-farm jobs exclude self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

Federal Government employment in the table above includes approximately 24,200 civilians employed by the United States Department of Defense, but excludes military uniformed personnel. In its 2018 Economic Impact Study, the San Diego Military Advisory Council (SDMAC) estimated that the military directly employs approximately 119,000 military uniformed personnel in San Diego County, which is home to one out of every six of the Nation's Sailors as well as over one-fourth of the total United States Marine Corps.

MAJOR INDUSTRIES

San Diego's economic base has evolved from one with a greater reliance on defense spending and tourism to one that includes more high-technology manufacturing and an expanded international trade sector. The City's Economic Development Strategy for 2017 through 2019, prepared by the City's Economic Development Department and adopted by the City Council in December 2016, identified four economic base industries in San Diego: (1) manufacturing and innovation, (2) international trade and logistics, (3) military installations, and (4) tourism. These are sectors that bring money and wealth into the region by exporting goods and services to the rest of the nation and the world.

The City's economic base is anchored by higher education and major scientific research institutions, including the University of California San Diego, San Diego State University, Scripps Research Institute, the Salk Institute for Biological Studies, and the San Diego Supercomputer Center. This provides a research and development foundation that helps create new products, which can then be manufactured in the region, especially in biotech and high-tech. According to the San Diego Regional Economic Development Corporation, scientific research and development impacts more than 100,000 local jobs and generates more than $14.4 billion in economic impact - a third of which stems from research institutes. San Diego's manufacturing sector is diverse, including several manufacturing clusters: biotech; cleantech; defense and security systems; electronics and telecommunications; and food and beverage production.

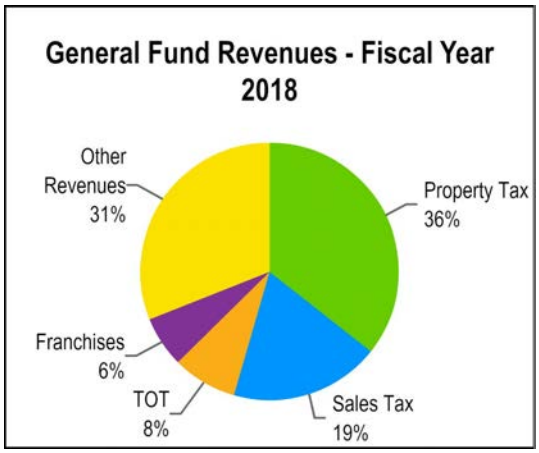
With its proximity to Mexico and the Pacific Rim, San Diego is in a unique geographical position that creates opportunities for growth in international trade. The proximity of Mexican manufacturing to the United States often makes "near-sourcing" of manufacturing back to Mexico attractive for U.S. companies. The Port of San Diego, built around one of the world's great natural harbors, also facilitates international trade which provides for the importation of a wide variety of bulk products and large equipment. According to the Global Cities Initiative, the San Diego area was the 15th largest merchandise exporter in the U.S. with an export value of $23.8 billion, with a total export-supported job total of 152,680. Annualized growth rates in exports from the San Diego area have increased by 1.7% from 2014 to 2017.

The military continues to play a significant role in the San Diego economy. The San Diego Military Advisory Council (SDMAC) issued a Military Economic Impact Study in November 2018 (SDMAC Study) estimating that in 2018, defense-related activities and spending will generate approximately $50 billion of Gross Regional Product (GRP) for San Diego County, or 22% of the region's total GRP. The military was responsible for approximately 340,000 jobs in the region, or 22% of all employment in the region. The SDMAC Study further estimates that $26 billion in federal defense funds were allocated to San Diego County, an increase of 3.2% from the previous year. This direct spending is estimated to rise approximately 4% in fiscal year 2019.

Tourism is a major economic driver for the City. In 2018, the San Diego Convention Center drew more than 898,000 attendees participating in one of 149 hosted events, and directly spending $673.9 million in the region. According to the San Diego Tourism Authority (SDTA), the hospitality industry employed approximately 194,000 people as of December 2017 throughout the County. The SDTA further states that San Diego hosted 35 million visitors in calendar year 2017 who spent over $10.8 billion at local businesses and generated $289 million in Transient Occupancy Tax for the San Diego region during fiscal year 2017.

FINANCIAL AND ECONOMIC TRENDS

In fiscal year 2018, the General Fund's four major operating revenue sources - property tax, sales tax, transient occupancy tax (TOT), and franchise fees (unrestricted) - made up 69% of total General Fund revenues. Based on revenue projections for the first quarter of fiscal year 2019, major revenues for the General Fund are expected to increase by $64.1 million (6.3%) compared to major revenues reported for the General Fund in the fiscal year 2018 basic financial statements.



The table below shows historical trends for the General Fund major revenues for the past four fiscal years and revenue projections for fiscal year 2018.

General Fund Major Revenues by Fiscal Year
(Dollars in Thousands)

	2014	2016	2017	2018	2019 [1]
Property Tax	$ 449,244	$ 471,321	$ 506,197	$ 535,481	$ 568,702
Sales Tax [2]	265,295	284,448	280,558	282,321	307,485
TOT [3]	98,138	107,675	116,869	121,904	128,687
Franchise Fees [4]	81,251	81,929	73,080	80,215	79,189
TOTAL	$ 893,928	$ 945,373	$ 976,704	$ 1,019,921	$ 1,084,063

[1] Source: Fiscal Year 2019 First Quarter Budget Monitoring Report - Department of Finance, City of San Diego.

[2] Includes Safety Sales Tax.

[3] Includes the General Fund portion of Transient Occupancy Tax (5.5% of the 10.5% levy). $109.9 million was deposited into the TOT Special Revenue Fund in fiscal year 2018.

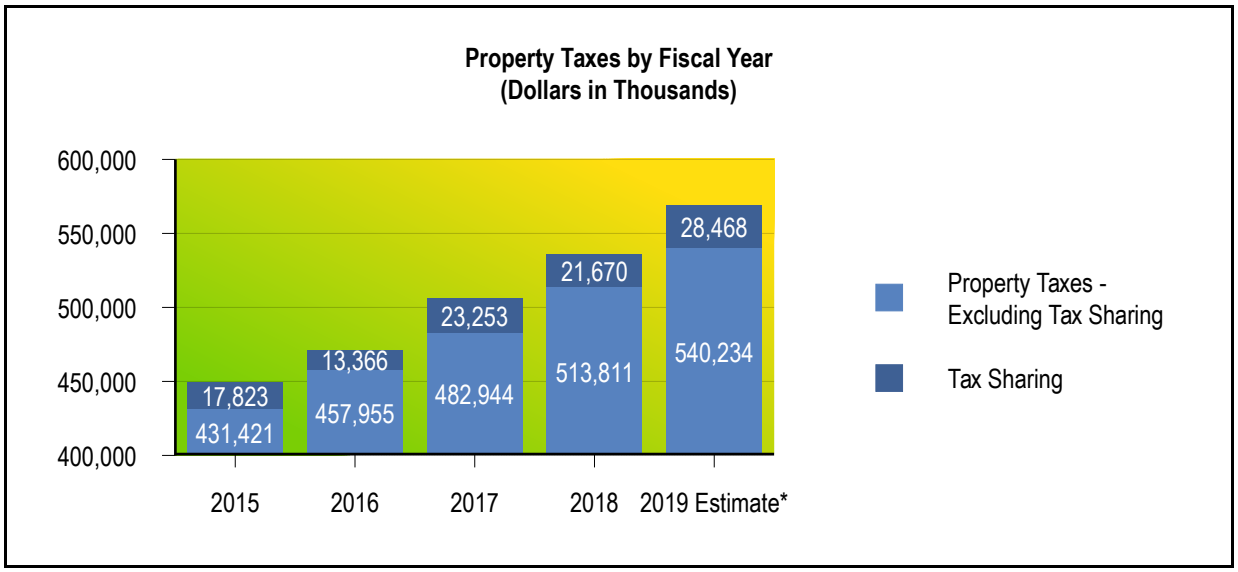
[4] Excludes $16.0 million of SDG&E franchise fee revenue restricted by the Charter to preserve and enhance the environment of the City.

Property Tax

Property Tax revenue is the largest revenue source for the General Fund, representing 35.7% of total General Fund revenue recognized in fiscal year 2018. There is a two year lag between the time at which property values are assessed by the County of San Diego and the time the property tax revenue is received by the City. Therefore, the property tax revenue received in fiscal year 2018 and the estimated revenue for fiscal year 2019 are based on assessments from January 1, 2017 and 2018, respectively. The 6.2% growth rate projected for property tax revenue in fiscal year 2019 in the First Quarter Budget Monitoring Report is based on year-over-year increases in the median home price of 10.5% and a decrease in home sales of 3.2%. The fiscal year 2019 assessed valuation of properties not sold or otherwise improved, in accordance with limits established by Proposition 13, is based on the change in the California Consumer Price Index (CCPI) from October 2016 to October 2017. During this period, the CCPI increased by 3.0%. Furthermore, Proposition 13 limits the inflation factor to 2.0%, therefore the assessed valuation of properties not sold or otherwise improved will increase their taxable basis by 2.0%.

Property tax revenue trends have been affected by tax sharing distributions resulting from the dissolution of the former redevelopment agency. The City receives tax sharing distributions in accordance with redevelopment dissolution laws and a proportional share of residual property tax payments of funds remaining in the Redevelopment Property Tax Trust Fund (RPTTF) after Recognized Obligation Payments are made. The amount of these payments has varied over the last four fiscal years. The following graph shows property taxes, net of tax sharing amounts, for

fiscal years 2015 through 2019, and the corresponding tax sharing amounts for each respective fiscal year (projected amounts for fiscal year 2019).

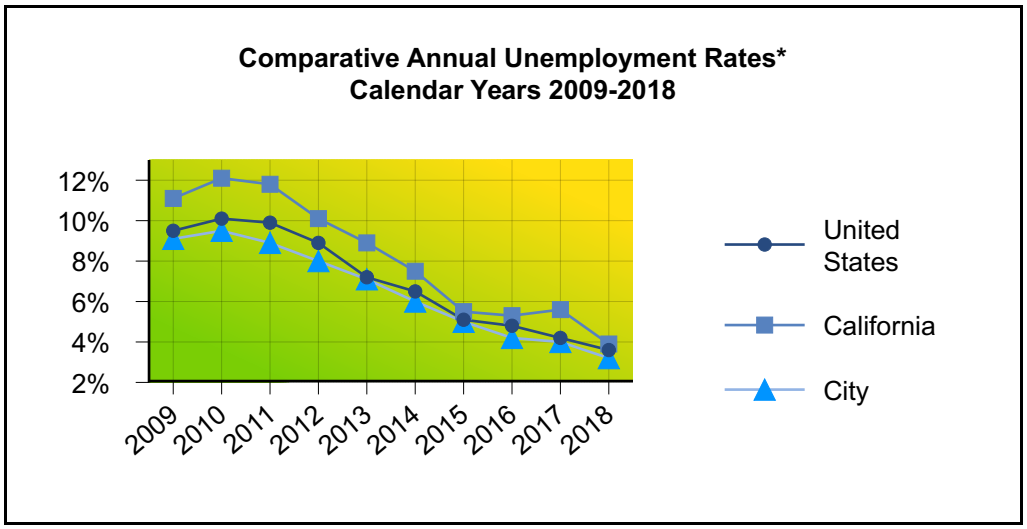


* Source: Fiscal Year 2019 First Quarter Budget Monitoring Report - Department of Finance, City of San Diego

Sales Tax

The City's second largest revenue source for the General Fund is Sales Tax, representing 18.8% of total General Fund revenue recognized in fiscal year 2018. The total citywide sales tax rate in San Diego is 7.75%, of which the City receives approximately 1.0% for general purposes. The City also receives a portion of the 0.5% collected by SANDAG for the TransNet program to fund transportation improvements throughout the City, and a portion of the 0.5% Safety Sales Tax to fund local public safety needs. General purpose and Safety Sales Tax are deposited in the General Fund, while TransNet sales tax revenue is deposited in the TransNet Capital Projects Fund.

The major local economic drivers of the City's Sales Tax revenue include the unemployment rate and consumer confidence. The unemployment rate for the City was 3.3% in October 2018, down from 3.6% in October 2017 and 4.7% in October 2016. A lower local unemployment rate generally improves consumer confidence which, in turn, improves the City's sales tax receipts. In fiscal year 2018, actual sales tax revenue was lower than anticipated, which was primarily due to delayed fiscal year 2018 tax distributions of approximately $14.7 million from the State. While the local economic indicators for sales tax are positive and stable, growth in sales tax will be restrained by online sales. As consumers shift from in-store purchases to online sales, the City receives a smaller portion of sales tax revenues. In another matter, the recent Supreme Court ruling in South Dakota vs. Wayfair, Inc. allows states to require online retailers to collect and remit sales tax, overruling a long-standing physical presence requirement. Although this decision will increase local sales tax revenues, the estimated impact and date of implementation are unknown. Based on the fiscal year 2019 projection, the City estimates a year-over-year increase in Sales Tax revenue of approximately $25.2 million (8.9%) compared to fiscal year 2018 actual revenue recognized.



Source: Federal Bureau of Labor Statistics, California Employment Development Department.
* Unemployment rate for 2018 is based on September 2018.

Transient Occupancy Tax

The City's TOT is levied at 10.5% of daily room prices in hotels and motels used by visitors staying in San Diego for fewer than 30 consecutive days. TOT revenue is allocated pursuant to the City Municipal Code. Of the 10.5% collected, 5.5% is allocated to the General Fund and the remaining 5% is allocated to the TOT Special Revenue Fund, 4% of which is allocated to special programs to promote the City's tourism and the remaining 1% is allocated for any purpose approved by the City Council. A portion of the revenue allocated to the TOT special revenue fund can be used to reimburse the General Fund for tourism promotion costs or transferred to the General Fund for any purpose approved by the City Council. TOT allocated to the General Fund of $121.9 million represented 8.1% of total General Fund revenue recognized in fiscal year 2018. In addition, the General Fund received reimbursements and transfers from the TOT Special Revenue Fund of $24.6 million and $26.8 million, respectively, in fiscal year 2018 for a combined total of $173.3 million.

Tourism Information - County of San Diego

	CY 2015	CY 2016	CY 2017	CY 2018 [1]	CY 2019 [1]
Visitors					
Total Visits (millions)	34.3	34.9	35	36.2	37
Overnight Visits (millions)	17.2	17.4	17.6	18.1	18.4
Hotel Sector					
Average Occupancy	76.4%	77.1%	77.3%	77.5%	77.2%
Average Daily Rate	$150.03	$154.87	$160.11	$165.07	$171.64
Revenue PAR [2]	$114.58	$119.38	$123.73	$127.99	$132.44
Room Demand (growth)	3.4%	2.2%	1.3%	2.7%	1.9%

Source: San Diego Tourism Authority and Tourism Economics.

[1] Forecast July 2018- Tourism Economics, Inc.

[2] Revenue per Available Room (Average Occupancy multiplied by Average Daily Rate).

The preceding table reflects the positive trend in tourism growth over the past three calendar years (2015-2017) and the forecast for calendar years 2018 and 2019 for San Diego County. Major economic drivers for TOT revenue include seasonal and non-seasonal tourism, business travel and conventions. Sustained positive tourism growth has occurred since the economic turnaround began in fiscal year 2010, continued through fiscal year 2017, and is expected to continue, though at a slower rate, through fiscal year 2019. The fiscal year 2019 projection estimates a year-over-year increase in General Fund TOT revenue of approximately $6.8 million (5.6%) compared to actual revenue recognized in fiscal year 2018.

Franchise Fees

San Diego Gas and Electric (SDG&E), the single largest generator of franchise fee revenues for the General Fund, remits 3% of the gas and electricity gross sales within the City, 75% of which is unrestricted and 25% of which is restricted by the Charter to preserve and enhance the environment of the City. Both restricted and unrestricted SDG&E franchise fee revenues are recorded in the General Fund. The City also collects 5% of its gross revenues from Cox Communications, Spectrum (formally Time Warner Cable), and AT&T for cable and broadband. Other franchise fee revenues include refuse hauler fees based on the total amount of refuse hauled annually, and fees from the Police Department vehicle tow program. Unrestricted franchise fee revenues of approximately $80.2 million represented 5.3% of total General Fund revenues recognized in fiscal year 2018. The fiscal year 2019 projection estimates a year-over-year decrease of $1.0 million in unrestricted franchise fee revenues.

LONG-TERM FINANCIAL PLANNING AND FINANCIAL POLICIES

FIVE-YEAR OUTLOOK

Each year the City develops a Five-Year Financial Outlook (Outlook), which is the guiding document for long-range fiscal planning and serves as the framework for development of the next adopted budget. The Outlook is published annually and incorporates a range of information on items that influence projected revenues and anticipated appropriation needs over the next five fiscal years. These projections inform the City Council and the public of the long-term costs of programs in the context of the City's overall General Fund budget and projected revenue growth. The Outlook can be obtained online at https://www.sandiego.gov/finance/financialrpts.

MULTI-YEAR CAPITAL IMPROVEMENT PROGRAM AND INFRASTRUCTURE

On January 24, 2018, the City's Public Works Department released its Five-Year Capital Infrastructure Planning Outlook (CIP Outlook) report. The CIP Outlook presents a comprehensive overview of the City's CIP including current driving factors, reviews of service level standards, a discussion of condition assessment impacts, and a cost analysis which spans over multiple fiscal years. The CIP Outlook is released on an annual basis and will be used as a guide in developing the City's Annual Capital Improvement Program Budget.

The CIP Outlook projects capital needs through fiscal year 2023 at approximately $4.37 billion. However, projected available funding is approximately $2.79 billion with an estimated funding gap of $1.58 billion. This does not represent the entire value of all City infrastructure needs since not all capital needs could be reasonably addressed within the next five years. Additionally, the funding gap only relates to General Fund owned assets, as enterprise funds such as water and sewer utilities are considered self-sufficient for capital needs. As the CIP program grows, it is critical to efficiently manage and deliver capital projects, and build organizational capacity in the CIP. As mentioned previously, the fiscal year 2019 Adopted Budget includes additional positions to support the multi-billion dollar CIP program efforts.

The City owns and maintains depreciable assets, including but not limited to, streets, bridges, parks, public facilities, and airports. Over the years, due to competing financial priorities, the City deferred maintenance and capital expenditures related to some of these assets, resulting in deterioration of parts of the City's infrastructure. In addition to deferred capital needs, the City has identified significant storm water capital projects in the Watershed Asset Management Plan needed to comply with more stringent water quality regulations (see Note 17). The City has continued to address the deferred capital costs through its multi-year financing plan and assess the condition of key asset classes.

The City has previously conducted condition assessments on streets, bridges, sidewalks, highest risk storm drains, and most General Fund-owned facilities. These condition assessments are updated on a periodic basis. The current condition assessments and CIP Outlook cover a subset of City assets and represent a portion of the City's deferred maintenance and infrastructure needs. However, as remaining assessments for parks, storm drains, and other essential public infrastructure are conducted, the City will continue to gain a better understanding of funding needs. Generally, the City has discretion on the condition levels at which City assets are maintained. Therefore, deferred maintenance on City assets does not constitute a liability of the City. There are, however, significant commitments and contingent liabilities related to infrastructure spending and other requirements disclosed in Notes 17 and 18. Spending priorities on asset maintenance and infrastructure are reassessed

annually and incorporated into the budget process in order to ensure that condition level goals are met in a manner that is balanced with other budget priorities and spending requirements.

A financial plan for addressing General Fund deferred capital needs and new facilities has been in place over the last several years in part through the issuance of $333 million in Lease Revenue Bonds. Looking forward, $88.5 million in short-term commercial paper notes are anticipated to be issued during fiscal year 2019 as part of the approximately $270 million expected to be financed through fiscal year 2024 towards capital and infrastructure needs. Additionally, the DoF prepares semi-annual CIP Budget Monitoring Reports that highlight the effective cash management and streamlining efforts that enhance internal monitoring and execution of the CIP program. These reports can be obtained at https://www.sandiego.gov/finance/financialrpts.

There are also significant additional revenue sources restricted for capital projects and infrastructure, such as TransNet, Gas Taxes, proceeds from real property sales, developer impact fees, and capital grants that are anticipated to be invested in City infrastructure and deferred maintenance. Additionally, on June 7, 2016, San Diego residents passed Proposition H, a Charter amendment measure that establishes an Infrastructure Fund (Fund) to be used exclusively to pay for capital improvements and repair and maintenance of City infrastructure. Beginning in fiscal year 2018, the City must deposit 50% of major revenue growth over the base year of fiscal year 2016 into the Fund for five years. The full budgeted amount of $17.8 million was deposited in the Fund during fiscal year 2018. The fiscal year 2019 adopted budget for the Fund is $17.1 million. Major revenues are property tax, transient occupancy tax, and unrestricted franchise fees. Thereafter, for the next 20 years, the Infrastructure Fund deposit will be (1) the incremental growth in sales tax from the base year after a CPI allocation to the General Fund, and (2) any savings from a reduction in annual pension payments. Based on forecasted revenue and pension costs used in the 2020-2024 Five Year Outlook, no mandatory deposits are expected in fiscal year 2023 or fiscal year 2024.

RESERVES

Strong financial reserves position the City to weather significant economic downturns more effectively and manage the consequences of outside agency actions that may result in revenue reductions. They also serve to address unexpected emergencies such as natural disasters and catastrophic events, unanticipated critical expenditures or legal judgments against the City. The City's approach to establishing and maintaining strong reserves across the spectrum of City operations, including General Fund, Risk Management and enterprise fund (including sewer and water utilities) operations, is contained in the City's Reserve Policy.

The City's Reserve Policy establishes policy goals, which represent the total reserve level that the City is trying to achieve for each of its reserves (Policy Goal). For those reserves that are not at Policy Goal levels, the City's Reserve Policy establishes incremental funding levels for each fiscal year (Target Goal) until arriving at full funding. The table on the following page identifies the Policy Goal, Target Goal (percentage and dollar), and current reserve levels as of the end of fiscal year 2018 for General Fund, Risk Management and Pension Payment Stabilization Reserves.

Reserve	Policy Goal	FY 18 Target %	FY 18 Target $ (In Millions)	FY 18 Reserve %	FY 18 Reserve $ (In Millions)
General Fund Emergency Reserve [1]	8% of the most recent three year average of annual audited General Fund operating revenues (budgetary basis)	8%	$96.7	8%	$96.7
General Fund Stability Reserve [1]	8.7% of the most recent three year average of annual audited General Fund operating revenues (budgetary basis)	7%	$84.6	7%	$84.6
Public Liability Reserve [2]	50% of outstanding public liability claims based on the annual actuarial liability valuations for the three most recent fiscal years	47%	$32.6	50%	$34.7
Workers' Compensation Reserve [2]	12% of outstanding workers' compensation claims based on the annual actuarial liability valuations for the three most recent fiscal years	12%	$30	12%	$30
Long-Term Disability Reserve [2]	100% of long-term disability claims based on the annual actuarial liability valuations for the three most recent fiscal years	100%	$5.5	100%	$5.5
Pension Payment Stabilization Reserve [3]	8% of the average of the three most recent Actuarially Determined Contributions	—%	$—	—%	$—

[1] For purposes of the General Fund Reserve Policy, the General Fund is the operational fund as presented in the City's annual budget document and excludes other funds which are consolidated with the General Fund for presentation in the CAFR in accordance with GASB 54.

[2] Public Liability, Workers' Compensation, and Long-Term Disability Reserves are based on cash on hand plus contributions receivable balances. The Public Liability Reserve is over its target balance and has met its fiscal year 2019 target in advance.

[3] Reserve was fully utilized during fiscal year 2018. An incremental replenishment plan is included in the Five-Year Outlook beginning in fiscal year 2019.

General Fund Reserves are comprised of two separate components: (1) the Emergency Reserve established for the purpose of sustaining General Fund operations in the case of a public emergency, and (2) the Stability Reserve established to mitigate financial and service delivery risk due to unexpected revenue shortfalls or unanticipated critical expenditures. The Emergency Reserve may be expended only if an event is determined to be a public emergency by a two-thirds vote of the City Council, while appropriations from the Stability Reserve require approval by a simple majority of the City Council.

To determine the reserve dollar amount in accordance with the City's reserve policy, the City calculates the average operating revenues for the General Fund (budgetary basis) based on the three most recent years and applies a percentage to that average. In fiscal year 2017, the City increased its Policy Goal for the Stability Reserve from 6% to 8.7%, while maintaining the Emergency Reserve at 8%, to arrive at the total General Fund Reserve Policy Goal of 16.7%. The City met its Stability Reserve Target Goal for fiscal year 2018 of 7% or $84.6 million.

The General Fund's Emergency Reserve of $96.7 million is reported as restricted fund balance in the financial statements. The General Fund's unassigned fund balance as of June 30, 2018 was $95.4 million, of which $84.6 million represents the General Fund's Stability Reserve. The excess unassigned fund balance may be used upon direction of the City Council. The General Fund also reports an additional $24.7 million of fund balance that has been assigned for expenditures in the fiscal year 2019 budget.

The City also maintains reserves to manage risk, including reserves for the payment of claims and judgments (Public Liability Reserve), a reserve for obligations related to workers' compensation claims (Workers' Compensation Reserve), and a reserve for long-term disability payments for City employees (Long-Term Disability Reserve). As of June 30, 2018, each of these reserves was funded in excess of Policy Goal levels. Balances in excess of the respective targets are evaluated annually to ensure current target levels and anticipated funding needs may be fulfilled as necessary. Public liability and workers' compensation reserves are reported in the financial statements as part of the General Fund's committed fund balance. The Long-Term Disability Reserve is reported as cash in the Miscellaneous Internal Service Fund. Liability claims paid after the end of fiscal year 2018 could reduce risk management reserve balances.

In April 2016, the City created the Pension Payment Stabilization Reserve. The purpose of this reserve is to mitigate service delivery risk by providing a source of funding for unanticipated increases in the Actuarially Determined Contribution (ADC). The ADC is calculated by SDCERS' actuary as part of its annual Actuarial Valuation Report. Unanticipated increases in the ADC could be caused by several factors, such as lower than expected investment returns; changes in actuarial assumptions approved by the SDCERS Board, including a reduction in the discount rate; and other significant liability experience losses. The fiscal year 2018 adopted budget included full utilization of the General Fund and non-General

Fund reserves to minimize the impact from the significant increase in the City's July 1, 2017 ADC payment of $324.5 million. The Fiscal Year 2020-2024 Five-Year Financial Outlook Report included a plan to replenish the Pension Reserve on an incremental basis of 20.0% to achieve the full reserve target by Fiscal Year 2023. The Fiscal Year 2019 Adopted Budget included $3.6 million, or 20.0%, of the Pension Reserve for the General Fund and $1.2 million, or 20.0% of the Pension Reserve for the Enterprise funds, for a total of $4.8 million.

The City also maintains other reserves for the following enterprise funds: the Water and Sewer Utility Funds, Development Services Fund, Environmental Services Fund, and the Golf Course Fund. Other than the pension payment stabilization reserve, the City has made no draws on its primary reserves.

OTHER FINANCIAL POLICIES

In addition to policies related to reserves, budget development, budget monitoring and the Outlook, the City has adopted a comprehensive set of financial policies including policies on debt management, investments, Capital Improvement Program prioritization and transparency, among others. A summary of these policies can be found within the City's current year adopted budget online at https://www.sandiego.gov/finance/annual/vol1.

MAJOR ACCOMPLISHMENTS AND INITIATIVES

On October 29, 2018, the City fulfilled Mayor Faulconer's pledged five-year plan to repair at least 1,000 miles of City streets. The repairs were completed in just over a three-year period, well within the initial pledged period. The City intends to continue its aggressive street repair program in fiscal year 2019 by repairing approximately 390 miles. In addition, a 2016 independent assessment of City streets showed the overall condition index had improved over 20% since a previous 2011 assessment.

The City was honored with a first-of-its-kind national certification for using data to drive effective results for residents. Bloomberg Philanthropies' What Works Cities Initiative recognized San Diego for its use of innovative public outreach tools including resident satisfaction surveys, the Get It Done mobile application and a progressive open data policy. The award, which encourages cities across the country to emulate awardees in their approach to using data and evidence to enhance government effectiveness, was presented to Mayor Faulconer during the U.S. Conference of Mayors in Washington D.C. in January 2018.

Mayor Faulconer recently expanded his Clean SD initiative by directing the clearing of trash and debris from canyons to reduce the risk of canyon fires and keep residents and firefighters safe. The Clean SD program was launched in 2017 to address litter removal, street sweeping, and graffiti removal requests received through the City's Get It Done application. Crews have already removed over 1,400 tons of debris from rivers, creeks, city streets and sidewalks.

On December 5, 2017, the City Council approved an amendment to the San Diego Police Officers Association (POA) labor contract which increased pensionable compensation for represented employees totaling 25.6% to 30.6%, depending upon length of service. This is the largest recruitment and retention package in San Diego Police Department (SDPD) history, and authorizes salary and fringe benefit increases that range from 5% to 8.3%, semi-annually, starting July 1, 2018 through the end of the contract term on June 30, 2020. In June 2018, the City Council approved a professional services contract for marketing services to Police Recruits, including a national recruitment campaign and branding services intended increase the number of police officer recruit candidates. Finally, on December 11, 2018 Council is scheduled to hear another amendment to the POA labor contract focused on Police Officer lateral and recruitment incentive payments. This program approves cash incentives to recruits as they successfully complete various steps in the recruitment, academy and hiring processes. It also allows cash incentive payments to current POA represented employees who successfully recruit new members into SDPD.

In the area of water and wastewater infrastructure, the City is furthering the progress on a plan to implement a potable water reuse program (Pure Water) to provide future water reliability to San Diego residents, making the City a leader in water sustainability technology. In October 2018, the City Council approved a $614 million loan from the U.S. Environmental Protection Agency's Water Infrastructure Finance and Innovation Act (WIFIA) Program. In November 2018, the City Council voted to authorize over $1 billion of construction contracts for Pure Water. See Notes 17 and 24 for more information on Pure Water.

Housing SD is a set of policies and initiatives to increase housing affordability and address the statewide housing crisis at the local level. The Housing SD plan includes a set of housing proposals to increase supply, lower costs, and promote smart growth and the City's Climate Action Plan implementation. The goal of Housing SD is to increase San Diego's housing supply for low and middle-income San Diegans. Initiatives that have been completed since June 2017 include the following: Affordable/Sustainable Expedite Program; municipal code changes to promote companion unit production; Affordable Housing Density Bonus Program; expansion of zones where live/work spaces are allowed; and the production of the first Housing Inventory Report which can be found at https://www.sandiego.gov/sites/default/files/housing-inventory-annual-report.pdf.

As a result of modest positive trends in revenue growth, the fiscal year 2019 Adopted Budget preserves a number of service enhancements added in previous years for residents of San Diego focusing on three strategic goals: achieve safe and livable neighborhoods; create an economically prosperous city; and provide high quality public service. Safe and livable neighborhoods are enhanced through funding for emergency command and data center dispatch, General Fund infrastructure support, police recruitment and retention compensation, and Clean SD. The fiscal year 2019 budget also recognizes important funding for three bridge shelters, affordable housing, and other homeless initiatives. Public service is enhanced through funding of new libraries and parks and recreation facilities, beach trash collection, and sidewalk repair and replacement support.

The City was able to preserve and enhance these core services, fully make its pension payment, and fully fund General Fund and Risk Management reserves to policy targets. Balancing the General Fund fiscal year 2019 budget involved making strategic decisions, which support the City's strong commitment to fiscal sustainability. Effective financial oversight promotes a healthy financial future and the ability to provide outstanding service to communities throughout San Diego.

ACKNOWLEDGMENTS

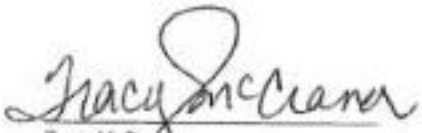
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City for its CAFR for the fiscal year ended June 30, 2017. In order to be awarded a Certificate of Achievement, the City had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable program requirements.

A *Certificate of Achievement for Excellence in Financial Reporting* is valid for a period of one year. We believe our current CAFR continues to meet the requirements of the Certificate of Achievement for Excellence in Financial Reporting Program, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the dedication and professionalism of the entire staff of the City's Department of Finance. We wish to thank all City departments for their valuable contributions and thank the staff of Civic San Diego, San Diego Convention Center Corporation, San Diego Housing Commission and San Diego City Employees' Retirement System for providing component unit information which has been incorporated into this report. We also want to thank the City's independent auditors, Macias Gini & O'Connell LLP for their work. Finally, we would like to thank Mayor Kevin Faulconer for his support in maintaining the highest standards of professionalism in management of the City and the Audit Committee for their governance role over the audit of the CAFR.

Respectfully submitted,

Rolando Charvel
Chief Financial Officer



Tracy McCraner
Department of Finance Director and
City Comptroller

Scott Clark
Assistant Director, Department of Finance

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of San Diego

California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

City of San Diego Current Elected Officials

(Holding office as of the issuance date of this report)

Mayor Kevin Faulconer

District 1
Councilmember Barbara Bry

District 2
Councilmember Lorie Zapf

District 3
Councilmember Chris Ward

District 4
Council President Myrtle Cole

District 5
Council President Pro Tem
Mark Kersey

District 6
Councilmember Chris Cate

District 7
Councilmember Scott Sherman

District 8
Councilmember David Alvarez

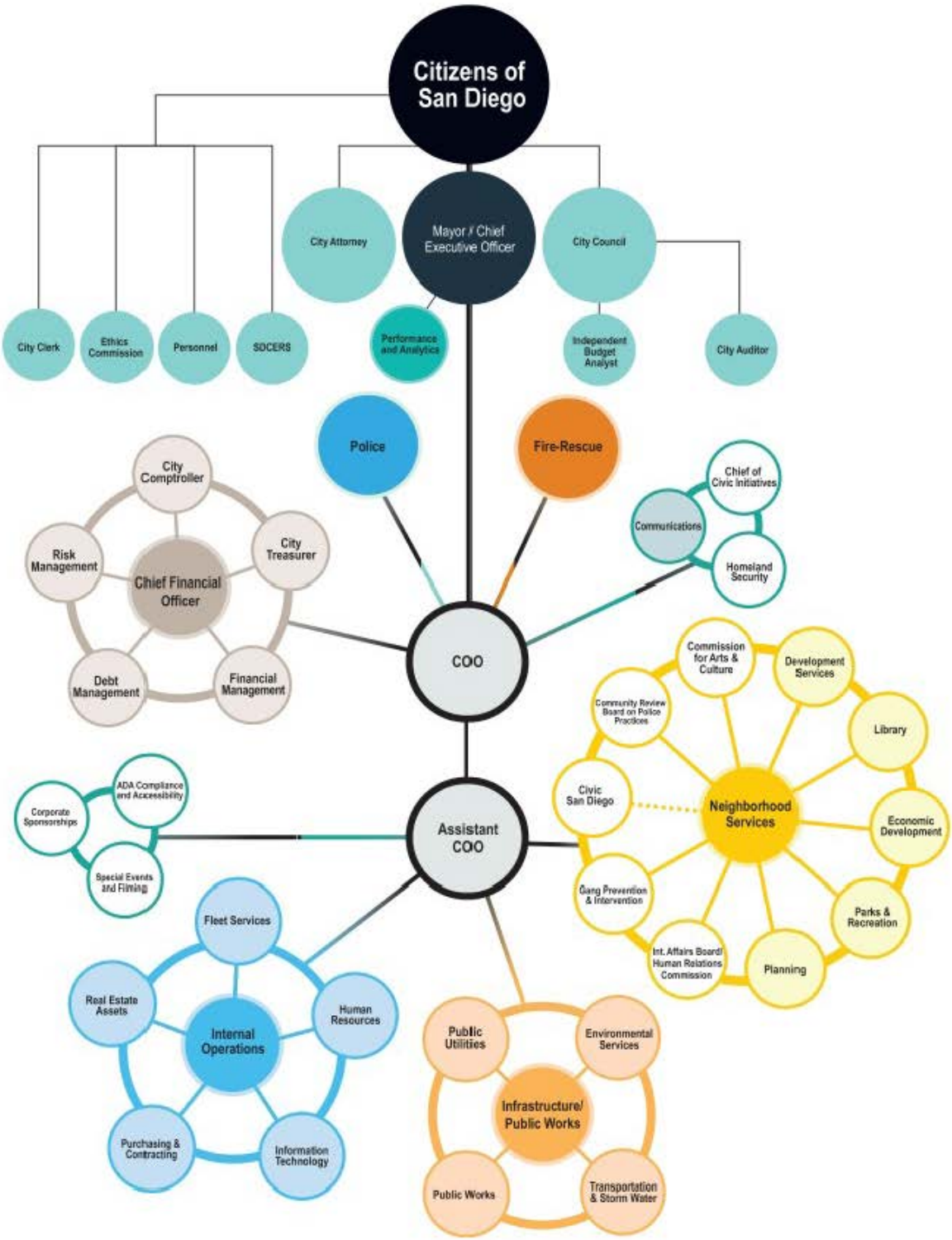
District 9
Councilmember Georgette Gómez

City Attorney
Mara W. Elliott

Other City Officials

Kris Michell, Chief Operating Officer
Rolando Charvel, Chief Financial Officer
Tracy McCraner, Department of Finance Director/City Comptroller
Gail R. Granewich, City Treasurer
Elizabeth Maland, City Clerk
Andrea Tevlin, Independent Budget Analyst
Kyle Elser, Interim City Auditor

The City of SAN DIEGO ORGANIZATION



REVISED: 04/03/2018

FINANCIAL SECTION

Old Town State Historic Park, San Diego, CA

Certified Public Accountants

Independent Auditor's Report

To the Honorable Mayor and Members of the
City Council of the City of San Diego, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of San Diego, California (City), as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the San Diego Housing Commission, a discretely presented component unit, which represents 100% of the assets, net position, and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the San Diego Housing Commission, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies

used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 23 to the basic financial statements, effective July 1, 2017, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of the implementation of GASB Statement No. 75, the net position as of July 1, 2017, was restated and reduced, on an opinion unit basis, as follows by: $188.4 million and $54.5 million for the governmental activities and business-type activities, respectively; $19.8 million and $18.6 million for the Sewer Utility and Water Utility major enterprise funds, respectively; and $25.4 million for the aggregated remaining fund information. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 33-46; the schedule of changes in net pension liability and related ratios, the preservation of benefits plan schedule of changes in total pension liability, the pension plans schedule of employer contributions, the schedule of changes in the net OPEB liability and related ratios, the OPEB plan schedule of employer contributions on pages 191-194; and the general fund schedule of revenues, expenditures and changes in fund balance - budget and actual (budgetary basis) on page 198, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 7, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

San Diego, California
December 7, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

As management of the City of San Diego (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2018. We encourage the reader to consider the information presented here in addition to the information presented in the Letter of Transmittal.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The focus of the government-wide financial statements is on reporting the operating results and financial position of the government as an economic entity. These statements are intended to report the City's operational accountability to its readers, giving information about the probable medium and long-term effects of past decisions on the City's financial position.

The Statement of Net Position presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the residual amount reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing changes in the City's net position during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The focus is on both gross and net costs of City functions, which are supported by general revenues. This statement also distinguishes functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include: General Government and Support; Public Safety-Police; Public Safety-Fire and Life Safety and Homeland Security; Parks, Recreation, Culture and Leisure; Transportation; Sanitation and Health; Neighborhood Services; and Interest on Debt Service. The business-type activities of the City include: Sewer Utility; Water Utility; Airports; Development Services; Environmental Services; Golf Course; Recycling; and the San Diego Convention Center Corporation (SDCCC).

The government-wide financial statements include the City (known as the primary government) and the San Diego Housing Commission (SDHC), a legally separate, discretely presented component unit. Financial information for this component unit is reported separately from the financial information presented for the primary government. The City also reports fiduciary component units which are not included in the government-wide financial statements. Fiduciary component units include the San Diego City Employees' Retirement System (SDCERS) and the Successor Agency of the Redevelopment Agency of the City of San Diego (Successor Agency). Blended component units, also legally separate entities, are a part of the City's operations and are combined with the primary government.

Included within the primary government as blended component units are the following:

- Civic San Diego (CSD)
- Convention Center Expansion Financial Authority (CCEFA)
- Public Facilities Financing Authority (PFFA)
- San Diego Facilities and Equipment Leasing Corporation (SDFELC)
- Tobacco Settlement Revenue Funding Corporation (TSRFC)
- The Otay Mesa Enhanced Infrastructure Financing District Public Financing Authority (EIFDPFA)
- San Diego Convention Center Corporation (SDCCC)

The government-wide financial statements can be found beginning on page 50 of this report.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

GOVERNMENTAL FUNDS

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statements of Revenues, Expenditures and Changes in Fund Balances for the General Fund, which is a major fund. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the Combining and Individual Fund Financial Statements and Schedules section of this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget and is presented as required supplementary information.

The basic governmental funds financial statements can be found beginning on page 54 of this report.

PROPRIETARY FUNDS

The City maintains two different types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its various business-type activities, such as Sewer and Water Utilities. Internal service funds, such as Central Stores, Fleet Operations, and Publishing Services, are used to report activities that provide centralized supplies and/or services to the City.

Proprietary funds statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the Sewer and Water Utility funds, which are considered major funds of the City. Data for the nonmajor enterprise funds are combined into a single, aggregated presentation, and the internal service funds are combined into a single, aggregated presentation as well. Included in the Combining and Individual Fund Financial Statements and Schedules section of this report are individual fund data for the nonmajor enterprise funds and the internal service funds.

The basic proprietary funds financial statements can be found beginning on page 60 of this report.

FIDUCIARY FUNDS

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's operations. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary funds financial statements can be found beginning on page 66 of this report.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found beginning on page 69 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information regarding: changes in the City's net pension liability; changes in the City's total pension liability for the Preservation of Benefits (POB) Plan; changes in the City's net other postemployment benefits liability; employer contributions to the pension plan; and employer contributions to the postemployment healthcare benefits plan. The required supplementary information also includes a budgetary comparison schedule for the General Fund. Required supplementary information can be found beginning on page 191 of this report.

The individual fund data referred to earlier in connection with nonmajor governmental funds, nonmajor enterprise funds, internal service funds, and fiduciary funds are presented immediately following the required supplementary information beginning on page 215 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

CITY OF SAN DIEGO'S CONDENSED STATEMENT OF NET POSITION
(Dollars in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017 [1]	2018	2017 [1]	2018	2017 [1]
Capital Assets	$ 5,077,307	$ 4,954,394	$ 6,176,556	$ 5,977,870	$ 11,253,863	$ 10,932,264
Other Assets	2,417,166	2,490,292	1,137,582	1,113,995	3,554,748	3,604,287
Total Assets	7,494,473	7,444,686	7,314,138	7,091,865	14,808,611	14,536,551
Deferred Outflows of Resources	671,068	810,822	261,901	304,809	932,969	1,115,631
Net Long-Term Liabilities	3,819,533	3,699,467	2,706,938	2,586,994	6,526,471	6,286,461
Other Liabilities	182,938	187,260	220,200	259,286	403,138	446,546
Total Liabilities	4,002,471	3,886,727	2,927,138	2,846,280	6,929,609	6,733,007
Deferred Inflows of Resources	80,135	—	18,506	2,730	98,641	2,730
Net Position						
Net Investment in Capital Assets	4,308,123	4,220,622	4,383,725	4,246,534	8,691,848	8,467,156
Restricted	1,490,948	1,725,549	7,208	7,790	1,498,156	1,733,339
Unrestricted	(1,716,136)	(1,577,390)	239,462	293,340	(1,476,674)	(1,284,050)
Total Net Position	$ 4,082,935	$ 4,368,781	$ 4,630,395	$ 4,547,664	$ 8,713,330	$ 8,916,445

[1] Fiscal year 2017 amounts have not been restated for the effects of GASB Statement No. 75 implementation, which impacts Net Position variance explanations below.

As noted earlier in the overview of the government-wide financial statements, over time, changes in net position may serve as a useful indicator of a government's financial position. The City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $8,713,330 as of June 30, 2018, a decrease of $203,115, or approximately 2%, over fiscal year 2017.

The City's net investment in capital assets is $8,691,848. This includes land, construction-in-progress, structures and improvements, equipment, distribution and collections systems, and other infrastructure, less any outstanding debt used to acquire these assets and the related deferred outflows/inflows of resources. The City uses these capital assets to provide services to citizens, and consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves generally are not used to liquidate these liabilities.

Restricted Net Position is $1,498,156, or approximately 17% of total Net Position, representing resources that are subject to external restrictions on how they may be used. The amount of ($1,476,674) represents the Unrestricted Net Position deficit. This deficit is mainly the result of the combined Pension Liabilities of $2,532,590 reported in accordance with GASB Statement Nos. 68 and 73, and the Net Other Postemployment Benefits (OPEB) Liability of $550,444 reported in accordance with GASB Statement No. 75 (GASB 75). Additional information regarding pension matters, including the City's funding policy, can be found in Note 12, and additional OPEB information can be found in Note 13.

Total Net Position resulting from governmental activities decreased by $285,846, or approximately 7%. The Net Investment in Capital Assets increased by $87,501, or approximately 2%, comprised of a net increase in capital assets for governmental activities of $122,913, a net increase in debt used to acquire these assets of $47,782, and an increase in related deferred outflows of resources of $12,370 (See Notes 4 and 5). Unrestricted Net Position for governmental activities decreased by $138,746, or approximately 9%. This was primarily due to the restatement of Net Position due to the implementation of GASB 75.

Total Net Position resulting from business-type activities increased by $82,731, or approximately 2%. Unrestricted Net Position decreased by $53,878, or approximately 18%, which was primarily attributed to the Sewer and Water Utility Funds' use of Unrestricted Net Position to fund additions to capital projects, combined with the implementation of GASB 75.

CITY OF SAN DIEGO'S CONDENSED STATEMENT OF ACTIVITIES
(Dollars in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017 [1]	2018	2017 [1]	2018	2017 [1]
Revenues:						
Program Revenues						
Charges for Services	$ 482,981	$ 489,153	$ 1,126,500	$ 1,034,870	$ 1,609,481	$ 1,524,023
Operating Grants and Contributions	134,682	101,426	9,958	10,088	144,640	111,514
Capital Grants and Contributions	26,218	75,694	70,109	56,837	96,327	132,531
General Revenues						
Property Taxes	548,509	520,186	—	—	548,509	520,186
Transient Occupancy Taxes	231,863	222,228	—	—	231,863	222,228
Sales Taxes - Shared State Revenue	323,113	310,935	—	—	323,113	310,935
Franchises	96,313	86,992	—	—	96,313	86,992
Other Local Taxes	52,603	36,310	—	—	52,603	36,310
Investment Income	13,337	7,846	8,435	3,330	21,772	11,176
Other	100,484	164,661	13,758	7,076	114,242	171,737
Total Revenues	2,010,103	2,015,431	1,228,760	1,112,201	3,238,863	3,127,632
Expenses:						
General Government and Support	364,533	344,484	—	—	364,533	344,484
Public Safety-Police	542,128	501,314	—	—	542,128	501,314
Public Safety-Fire and Life Safety and Homeland Security	321,016	290,178	—	—	321,016	290,178
Parks, Recreation, Culture and Leisure	383,122	355,714	—	—	383,122	355,714
Transportation	264,278	239,099	—	—	264,278	239,099
Sanitation and Health	101,440	103,039	—	—	101,440	103,039
Neighborhood Services	91,686	82,384	—	—	91,686	82,384
Interest on Debt Service	36,515	36,943	—	—	36,515	36,943
Sewer Utility	—	—	351,145	339,189	351,145	339,189
Water Utility	—	—	532,056	477,037	532,056	477,037
Airports	—	—	7,415	6,306	7,415	6,306
Development Services	—	—	78,287	69,949	78,287	69,949
Environmental Services	—	—	41,397	34,253	41,397	34,253
Golf Course	—	—	21,072	19,925	21,072	19,925
Recycling	—	—	25,002	19,444	25,002	19,444
San Diego Convention Center Corporation	—	—	37,986	36,760	37,986	36,760
Total Expenses	2,104,718	1,953,155	1,094,360	1,002,863	3,199,078	2,956,018
Change in Net Position Before Transfers	(94,615)	62,276	134,400	109,338	39,785	171,614
Transfers	(2,814)	(3,207)	2,814	3,207	—	—
Change in Net Position	(97,429)	59,069	137,214	112,545	39,785	171,614
Net Position - July 1, as Restated	4,180,364	4,309,712	4,493,181	4,435,119	8,673,545	8,744,831
Net Position - June 30	$ 4,082,935	$ 4,368,781	$ 4,630,395	$ 4,547,664	$ 8,713,330	$ 8,916,445

[1] Fiscal year 2017 amounts have been reclassified to conform with current year presentation. Amounts have not been restated for the effects of GASB Statement No. 75 implementation.

GOVERNMENTAL ACTIVITIES

Governmental activities decreased the City's net position by $97,429 during fiscal year 2018. Variances from fiscal year 2017 of more than 10% and $5,000 are discussed below.

- Operating Grants and Contributions increased by $33,256, or approximately 33%. This was primarily due to increased expenditures for several reimbursement grants, including the Community Development Block Grant (CDBG), HOME Investment Partnerships Grant, and the Defense Industry Adjustment (DIA) Grant.

- Capital Grants and Contributions revenue decreased by $49,476, or approximately 65%, primarily due to a decrease in the amount of land, buildings, and infrastructure conveyed to the City from the Successor Agency.

- Franchise Revenue increased by $9,321, or approximately 11%. This was primarily the result of an increase in San Diego Gas & Electric (SDG&E) and Refuse Collection franchise revenues.

- Other Local Taxes increased by $16,293, or approximately 45%. Pursuant to the Road Repair and Accountability Act of 2017 (also known as SB1), the City adjusted the recognition of gas tax revenue to 60 days, corresponding with the State's updated point of sale transaction information. This resulted in an increased amount of Gas Tax being recorded in fiscal year 2018 compared to 2017. Also contributing to the increase was the receipt of the first of three loan repayments to make up for previous years' shortfalls of gas tax revenue from the State.

- Investment Income increased by $5,491, or approximately 70%, primarily due to the net change in unrealized gains and losses and rising interest rates.

- Other Revenues decreased by $64,177, or approximately 39%. This was primarily the result of a reduction in land sales in fiscal year 2018 compared to 2017, combined with a decrease in Facilities Benefit Assessment (FBA) revenues for several communities including Otay Mesa, North University City, Pacific Highlands Ranch, and Black Mountain Ranch. In addition, there were reductions in insurance reimbursements and legal settlements, as well as a reduction in revenue recognized from the transfer of notes receivables from the Successor Agency to the Low-Moderate Income Housing Fund.

- Public Safety-Fire and Life Safety and Homeland Security expenses increased by $30,838, or approximately 11%, primarily due to amended labor provisions, increased pension expense and air operations support.

- Transportation expenses increased by $25,179, or approximately 11%, primarily due to the receipt of new SB1 gas tax revenue, which allowed the City to take on additional street maintenance projects and continue the Mayor's 1,000 Miles of Street Repair initiative, combined with increased pension expense.

- Neighborhood Services expense increased by $9,302, or approximately 11%. This was primarily attributed to the remittance of program income to the Department of Housing and Urban Development (HUD). In addition, the HOME Investment Partnerships Program grant expenditures increased due to fiscal year 2018 being the final year of the grant.

BUSINESS-TYPE ACTIVITIES

Business-type activities increased the City's net position by $137,214 during fiscal year 2018. Variances from fiscal year 2017 of more than 10% and $5,000 are discussed below.

- Capital Grants and Contributions revenue increased by $13,272, or approximately 23%, primarily due to the Water Utility Fund recording additional donated assets related to the San Vicente Dam's Emergency Storage Project, previously conveyed to the City from the County Water Authority, that raised the height of the dam and increased the reservoir's capacity.

- Investment Income increased by $5,105, or approximately 153%, primarily due to the net change in unrealized gains and losses and rising interest rates.

- Other Revenues increased by $6,682, or approximately 94%, primarily due to the Water Utility Fund receiving reimbursement from the Sweetwater Authority for a prior year payment related to its desalination facility.

- Water Utility expense increased by $55,019, or approximately 12%, due to several factors including: an increase in the retirement of capital assets; an increase in interest expense related to a capitalized interest adjustment; an increase in pension expense; and changes in the City's net OPEB liability (See Note 13).

- Development Services expense increased by $8,338, or approximately 12%, primarily due to changes in the City's net OPEB liability (See Note 13), an increase in office space rent due to the acquisition of 101 West Ash Street, and an increase in pension expense.

- Environmental Services expense increased by $7,144, or approximately 21%, primarily due to an increase in the landfill closure and postclosure care liability, combined with expenses related to landfill odor mitigation.

- Recycling expense increased by $5,558, or approximately 29%, primarily due to increased pension expense.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GOVERNMENTAL FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, governmental fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported.

As of the end of fiscal year 2018, the City's governmental funds reported combined ending fund balances of $2,008,822, a decrease of $82,932 from fiscal year 2017. The General Fund and Other Governmental Funds had unassigned fund balances of $95,434 and ($43,514), respectively, with a combined unassigned fund balance of $51,920. The General Fund unassigned fund balance of $95,434 includes the Stability Reserve of $84,600. The restricted, committed, and assigned fund balances are (1) to liquidate contracts and purchase orders of the period, (2) to pay debt service, (3) to generate income to pay for the perpetual funding of various programs, (4) for use in the subsequent year's budget, (5) for emergency reserves, or (6) for a variety of other purposes, and are not available for new spending.

The General Fund is the principal operating fund of the City. Total Fund Balance for the General Fund was $353,804. General Fund revenues totaled $1,502,016, which was an increase of $63,122, primarily due to higher revenues from Property Taxes and Other Local Taxes. In addition,

Charges for Current Services increased mainly due to the Transient Occupancy Tax Fund receipts for safety and maintenance of visitor related facilities. General Fund expenditures totaled $1,538,357, which was an increase of $62,722. This was mainly due to an increase in pension related expenditures, offset by a decrease in capital outlay related to the capital lease of 101 West Ash Street in fiscal year 2017.

PROPRIETARY FUNDS

The City's proprietary fund statements provide the same type of information found in business-type activities in the government-wide financial statement, but in more detail.

As of the end of fiscal year 2018, total Net Position for the Sewer Utility Fund was $2,487,916, an increase of $26,178, or approximately 1% over fiscal year 2017. This net increase was comprised of a ($19,810) restatement of Net Position due to the implementation of GASB Statement No. 75 (See Note 23) and an increase in Net Position of $45,988. The Net Investment in Capital Assets increased by $89,756, or approximately 4%. This was comprised of: a net increase in capital assets of $30,154 mainly in the construction-in-progress and infrastructure categories; a net decrease in capital related debt of $69,115; and a decrease in associated deferred outflows of resources of $9,513. Unrestricted Net Position was $139,935, a decrease of $63,765, or approximately 31% from fiscal year 2017. This was primarily due to the use of Unrestricted Net Position to fund additions to capital assets. Total Operating Income was $64,419, an increase of $2,748, or 4% over fiscal year 2017.

The Water Utility Fund had total Net Position of $2,056,152 at the end of fiscal year 2018, an increase of $70,453, or approximately 4% over fiscal year 2017. This net increase was comprised of a ($18,636) restatement of Net Position due to the implementation of GASB Statement No. 75 (See Note 23) and an increase in Net Position of $89,089. The Net Investment in Capital Assets increased by $46,058, or approximately 2%. This was comprised of: a net increase in capital assets of $151,073 primarily in the construction in progress and infrastructure categories; a net increase in capital related debt of $101,632 which was primarily due to the issuance of commercial paper; and a decrease in associated deferred inflows/outflows of resources of $3,383. Unrestricted Net Position was $128,957, an increase of $24,404, or approximately 23% from fiscal year 2017. Total Operating Income was $79,086, an increase of $36,025 over fiscal year 2017. This was primarily due to a 6.9% water rate increase effective in August 2017 and an increase in the volume of water sold as a result of customer account growth, which were partially offset by increases in the cost of water purchased from the San Diego County Water Authority, increased pension expense, and changes in the City's Net OPEB Liability.

GENERAL FUND BUDGETARY HIGHLIGHTS

The following General Fund budgetary highlights include only those funds associated with General Fund operations as reported in the City's budget, and exclude the additional budgeted funds included with the General Fund for GAAP reporting purposes. The final budget for General Fund expenditures and transfers out was $7,293 higher than the original budget due to increases/(decreases) in appropriations primarily attributed to the following:

- $11,600 increase for contractual services for air operations support and overtime expenditures in the Fire-Rescue Department
- $4,040 increase for contractual expenditures associated with the Hepatitis A efforts, bridge shelters, and increased water usage in the Parks and Recreation Department
- $1,400 increase for Transportation and Storm Water contracts related to equipment rental and fleet vehicles
- $1,120 increase to Real Estate Assets Department to cover expenses associated with the unforeseen relocation from the Executive Complex property
- ($13,744) decrease in Citywide Program Expenditures associated with a special election, debt service payments and office space rent

Actual revenues earned in the General Fund were $12,488 higher than budgeted. Franchise Fees were over budget by $5,128, primarily due to increases in SDG&E and refuse hauler franchise fee revenues. Revenue from Use of Money and Property was over budget by $6,846, primarily due to an increase in rent from non-General Fund departments, higher rates of return on investments and higher rent from Mission

Bay Park properties. Revenue from Other Agencies was over budget by $2,568, primarily due to higher than expected reimbursements for fire services and police 911 dispatch services from the State. Other Revenue was over budget by $1,714, primarily due to escheated money being higher than expected. These increases were partially offset by Sales Tax coming in under budget by $2,422 due to delayed distribution from the California Department of Tax and Fee Administration, beyond the City's 60-day accrual policy. Fines, Forfeitures and Penalties also came in under budget by $1,168, primarily due to a decrease in parking citation revenues.

Actual expenditures for the General Fund were $19,562 under budget. General Government and Support was under budget by $15,095 primarily due to lower than anticipated citywide expenses. Public Safety-Fire and Life Safety and Homeland Security was under budget by $1,371 primarily due to lower than anticipated fringe costs in the Fire-Rescue Department. Sanitation and Health was under budget by $1,168 primarily due to lower than anticipated supply costs for Storm Water and lower than anticipated IT expenses in the Environmental Services Department.

CAPITAL ASSET AND DEBT ADMINISTRATION

CITY OF SAN DIEGO'S CAPITAL ASSETS
(Net of Accumulated Depreciation)
(Dollars in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Land and Rights of Way	$ 1,888,957	$ 1,883,487	$ 106,732	$ 97,611	$ 1,995,689	$ 1,981,098
Easements	5,684	5,228	2,157	2,520	7,841	7,748
Artwork/Historical Treasures	5,052	—	1,875	—	6,927	—
Construction in Progress	450,536	462,111	567,009	405,589	1,017,545	867,700
Structures and Improvements	869,978	866,531	1,399,304	1,425,351	2,269,282	2,291,882
Equipment	191,880	166,696	137,013	128,799	328,893	295,495
Intangible Equipment	24,277	14,816	36,056	10,669	60,333	25,485
Distribution and Collection Systems	—	—	3,926,410	3,907,331	3,926,410	3,907,331
Infrastructure	1,640,943	1,555,525	—	—	1,640,943	1,555,525
Totals	$ 5,077,307	$ 4,954,394	$ 6,176,556	$ 5,977,870	$ 11,253,863	$ 10,932,264

CAPITAL ASSETS

In accordance with Governmental Accounting Standards Board (GASB) Statement Nos. 34 and 51, all major assets such as land, structures, streets, signals, bridges, storm drains, distribution and collection systems for water and sewer, and intangible assets are capitalized by the City in the government-wide statements. While capital assets of both governmental and proprietary funds are capitalized at the government-wide level, only the proprietary funds report capital assets at the fund level. Governmental funds are reported on a modified accrual basis. Differences between reporting at the fund level and government-wide level for these governmental assets are explained in both the reconciliation and the accompanying notes to the basic financial statements.

The City's investment in capital assets (including infrastructure) for governmental and business-type activities as of June 30, 2018 was $11,253,863 (net of accumulated depreciation/amortization). There was an overall increase in the City's investment in capital assets over fiscal year 2017 of $321,599. Readers interested in more detailed information on capital asset activity should refer to Note 4.

HIGHLIGHTS OF FISCAL YEAR 2018 CAPITAL IMPROVEMENT PROGRAM (CIP) ACTIVITIES

Governmental Activities

- The asphalt overlay of approximately 88 miles of roads citywide was completed during fiscal year 2018. These projects provided for resurfacing and reconstruction of City streets, in order to maintain the streets in serviceable condition and mitigate roadway deterioration. These projects were funded primarily with lease revenue bonds. Fiscal year 2018 expenditures totaled $26,606.

- The City implemented the Infrastructure Asset Management (IAM) San Diego Project in fiscal year 2018. The IAM San Diego project is a citywide strategic initiative to develop and implement an integrated software solution that will improve the City's management of infrastructure assets. Fiscal year 2018 expenditures for this project totaled $19,885.

- The annual allocation for drainage projects provides for reconstruction and replacement of failing drainage facilities citywide. There are currently over 900 miles of storm drains in the City of San Diego. Fiscal year 2018 expenditures for drainage projects totaled $15,725.

- The annual allocation for Energy Improvement projects provides for energy efficiency improvements in City facilities citywide, including the installation of smart street lights. Fiscal year 2018 expenditures for Energy Improvement projects totaled $14,065.

- Construction began on the Mission Hills-Hillcrest Library, which will provide an approximately 15,000 square-foot library for the local community. This project is expected to be completed during fiscal year 2019. Fiscal year 2018 expenditures for this project totaled $10,787.

- Phase 1 of construction for the SR163/Friars Road Project began in fiscal year 2018 and is anticipated to be completed in fiscal year 2020. This project will provide for the construction of a new southbound 163 to westbound Friars Road off-ramp, and the widening of the Friars Road overcrossing to eight lanes. Fiscal year 2018 expenditures for this project totaled $9,174.

- Construction continued on Cesar Solis Community Park. This project included an acquisition of land during fiscal year 2010, and the design was completed in fiscal year 2011. Construction was delayed due to a pending property acquisition and reimbursement agreement. This park will include fifteen acres with an additional five acres of joint use with the adjacent Ocean View Hills School. Amenities include lighted ball fields, a comfort station, a children's play area, and picnic areas. It is anticipated to be completed in fiscal year 2019. The fiscal year 2018 expenditures for this project totaled $8,202.

Business-Type Activities

- The Sewer Utility Fund incurred capital expenditures of approximately $85,600 related to CIP, of which the Metropolitan System CIP incurred approximately $35,015, and the Municipal System CIP incurred approximately $50,585. The following major projects continued during fiscal year 2018: Surge Protection and Backup Power of Pump Station 2; North City Water Reclamation Plant Expansion; IAM San Diego Project; and the continued replacement of sewer mains and upgrades to the sewer infrastructure. Capital write-offs (net) for fiscal year 2018 totaled approximately $15,363 and were primarily related to losses on abandoned and otherwise expensed projects, and retirements of distribution and collection system assets.

- The Water Utility Fund incurred capital expenditures of approximately $173,000 related to CIP. The following major projects continued during fiscal year 2018: Miramar Clearwell Improvements; North City Pure Water Facility; Upas Street Pipeline Replacement; and the continued replacement of water mains and upgrades to water infrastructure. Capital Asset write-offs (net) for fiscal year 2018 totaled approximately $15,327 and were primarily related to losses on abandoned projects, capitalized interest adjustment, and retirements of equipment and distribution and collection system assets.

- San Diego Convention Center Corporation completed the Sails Pavilion roof fabric replacement project. The fiscal year 2018 expenditures for this project totaled approximately $9,315.

COMMITMENTS AND RESTRICTIONS

The City has contractual commitments related to its CIP program which have been encumbered in the applicable funds. The following table provides a breakdown of these commitments:

General Fund [1]	$	4,813
Nonmajor Governmental Funds		203,670
Sewer Utility		68,799
Water Utility		161,378
Nonmajor Enterprise Funds		22,727
Internal Service Funds		594
Total Contractual Commitments	$	461,981

[1] General Fund amount includes funds that do not meet the criteria to be classified as special revenue funds, pursuant to GASB 54.

Total Contractual Commitments increased by $171,390, or 59%, from fiscal year 2017, primarily due to the ramping up of Public Utility projects, including the Pure Water Program, and awarding of contracts related to the West Mission Bay Bridge Replacement Project.

In addition, there are restrictions on City financial resources externally imposed by creditors, grantors, contributors, laws or regulation of other governments, or constraints imposed by law through constitutional provision or enabling legislation, including the City Charter. Note 22 identifies restrictions on governmental fund balances. Additional restrictions exist related to enterprise funds when revenues of the fund can only be used for costs related to the particular enterprise.

LONG-TERM DEBT

CITY OF SAN DIEGO'S OUTSTANDING DEBT
(Dollars in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Capital Lease Obligations	$ 197,649	$ 165,626	$ 4,624	$ 6,091	$ 202,273	$ 171,717
QECB Lease Obligations	7,578	8,429	—	—	7,578	8,429
Contracts Payable	—	—	2,194	2,888	2,194	2,888
Notes Payable	—	—	11	13	11	13
Loans Payable	3,511	4,144	203,273	191,658	206,784	195,802
Section 108 Loans Payable	2,872	3,197	—	—	2,872	3,197
Commercial Paper Notes [1]	—	—	168,213	—	168,213	—
Revenue Bonds/Lease Revenue Bonds	543,195	570,460	1,402,850	1,489,565	1,946,045	2,060,025
Tobacco Settlement Asset-Backed Bonds	89,195	64,570	—	—	89,195	64,570
Totals	$ 844,000	$ 816,426	$ 1,781,165	$ 1,690,215	$ 2,625,165	$ 2,506,641

[1] Pursuant to GASB 62, in fiscal year 2018, Commercial Paper Notes have been recategorized from Short-Term to Long-Term Debt. See Note 6 and Note 8 for more information.

At the end of fiscal year 2018, the City, including blended component units, had total debt outstanding of $2,625,165. This amount represents lease revenue bonds, tobacco settlement asset-backed bonds, contracts payable, notes payable, loans payable, qualified energy conservation bonds (QECBs), commercial paper notes payable, and capital lease obligations.

Governmental Activities

Total principal payments or reductions of long-term debt were $245,841. Included in this amount was $32,945 for outstanding bond principal payments, $196,870 for bond refundings, $958 for loans payable, $851 for qualified energy conservation bonds, and $14,217 for capital lease obligation payments.

Readers interested in more detailed information regarding governmental activities long-term liabilities should refer to Note 5.

Business-Type Activities

The City's Sewer Utility Fund received the following State Revolving Fund (SRF) loan disbursements from the California State Water Resources Control Board:

- $2,908 for the Metro Biosolids Center (MBC) Odor Control Facilities Upgrades Project
- $2,862 for the Pump Station 2 Power Reliability and Surge Protection Project
- $4,541 for the MBC Chemical Systems Improvement, Phase II Project

The City's Water Utility Fund received the following SRF loan disbursements from the California State Water Resources Control Board:

- $10,482 for the University Avenue Pipeline Replacement Project
- $2,564 for the 69th Street and Mohawk Pump Station Project

Total principal payments or reductions of long-term debt were $100,620. Included in this amount was $86,715 for outstanding bond principal payments, $11,742 for loans payable, $1,467 for capital lease obligation payments, $694 for contracts payable, and $2 for SDCCC's notes payable. Readers interested in more detailed information regarding business-type activities long-term liabilities should refer to Note 6.

As of the issuance of this report, the City's Implied General Obligation (GO) / Issuer Credit Ratings and credit ratings on outstanding Lease Revenue Bonds and Revenue Bonds are as follows:

	Fitch Ratings	Moody's Investors Service	Standard & Poor's
Implied GO/Issuer Credit Rating	AA	Aa2	AA
Outlook	Stable	Stable	Positive
Lease Revenue Bonds	AA-	--	AA-
Outlook	Stable		Positive
Wastewater System Bonds (Senior Bonds)	AA	Aa2	AA+
Outlook	Stable	Stable	Stable
Water System Bonds (Subordinate Bonds)	AA-	Aa3	—
Outlook	Stable	Stable	—

Additional information on the City's long-term debt can be found in the accompany notes to the financial statements.

OTHER INFORMATION

Utilization of Pension Payment Stabilization Reserve for Fiscal Year 2018 Actuarially Determined Contribution

The fiscal year 2018 adopted budget included full utilization of the Pension Payment Stabilization Reserve balance of $20,536 to minimize the impact of the significant increase in the City's July 1, 2017 Actuarially Determined Contribution (ADC) of $324,500. This reserve was established in fiscal year 2016 to mitigate service delivery risk due to unanticipated increases in the ADC. The Fiscal Year 2020-2024 Five-Year Financial Outlook Report included a plan to replenish the Pension Reserve on an incremental basis of 20.0% per year to achieve the full reserve target by Fiscal Year 2023. The Fiscal Year 2019 Adopted Budget included $4.8 million, comprising 20.0% of the Pension Reserve for the General Fund ($3.6 million), plus 20.0% of the Pension Reserve for the Enterprise funds ($1.2 million).

San Diego Gas and Electric (SDG&E) Dispute

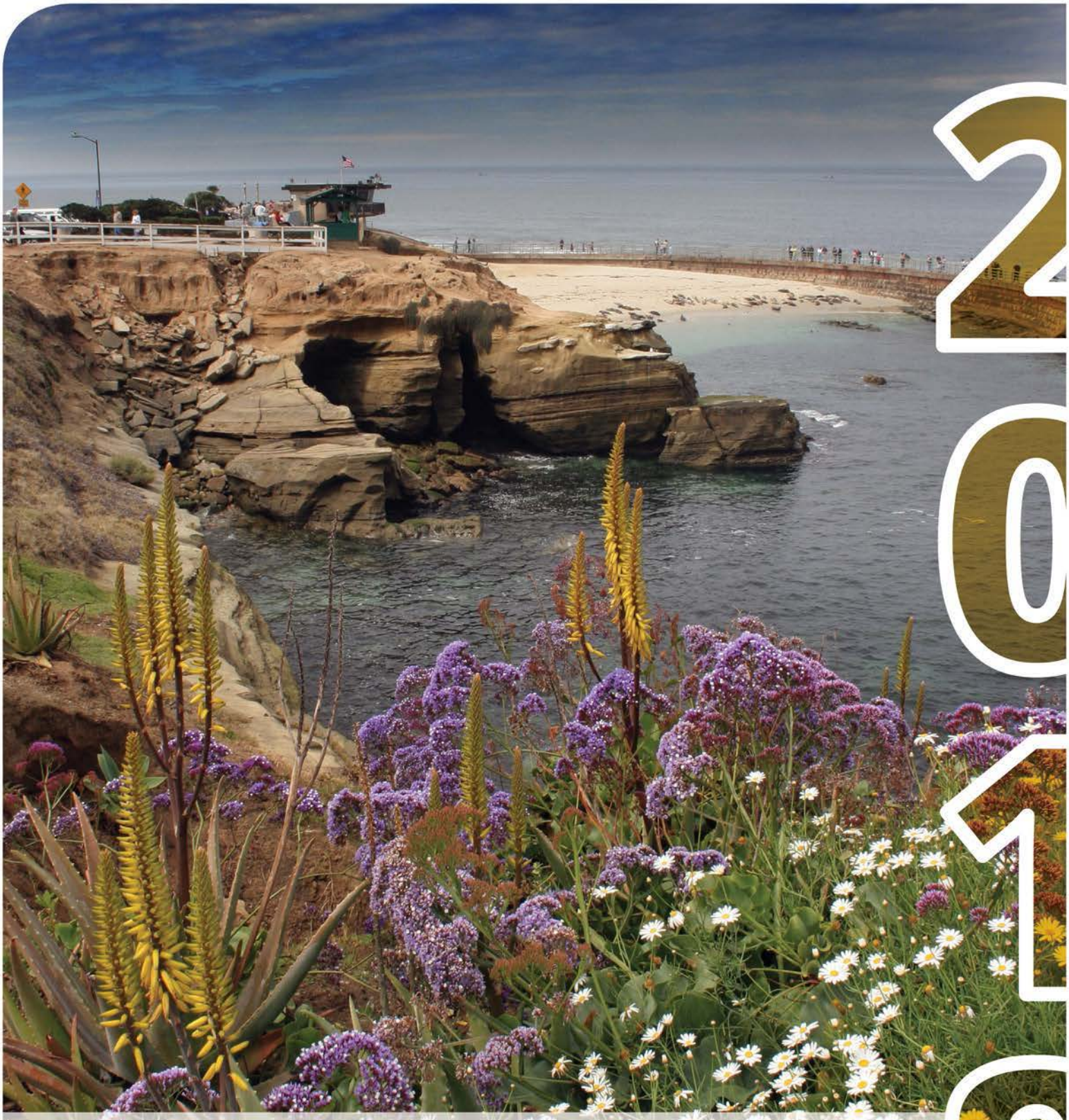
In June 2018, SDG&E informed the City that it was stopping all design work on utility relocations for the Pure Water Program, pending advance payment for such work from the City. SDG&E argued that it was not responsible for the costs of relocating any of its facilities under its electric or natural gas franchise agreements with the City, on the basis that such work was proprietary and not governmental. The City Attorney's Office responded to SDG&E, expressing the City's strong disagreement with SDG&E's position based on the plain language in those franchise agreements, which the City believes requires SDG&E to relocate its facilities located in the public right-of-way at its own expense when necessary to accommodate City water projects, including the Pure Water Program. Absent and until a resolution with SDG&E is reached, to avoid project delays, the budgeted cost of all Water System capital improvement projects including, but not limited to, the Pure Water Program, includes the cost of any relocation of SDG&E facilities. The Public Utilities Department has projected a total of $75.0 million of advance payments to SDG&E for facilities relocations in fiscal years 2019 and 2020. The City maintains its position that SDG&E should bear the costs of its facilities relocations from the public right-of-way for all City water projects and reserves the right to seek reimbursement from SDG&E through all legal means available.

Election Results

On November 6, 2018, voters in the City of San Diego approved Measure G, "SDSU West Campus Research Center, Stadium, and River Park Initiative". This measure amends the San Diego Municipal Code to authorize the City to sell 132 acres of City-owned real property, which includes SDCCU Stadium, to San Diego State University (SDSU), a California State University, or any SDSU auxiliary organization, entity, or affiliate. Also on November 8, 2018, voters in their respective districts elected new Councilmembers Jennifer Campbell in District 2; Monica Montgomery in District 4, and Vivian Moreno in in District 8. Councilmember Chris Cate was re-elected in District 6.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be sent to the Department of Finance at DOF@sandiego.gov. This financial report, and several other finance related reports, is also available on the City's website at www.sandiego.gov, under the Department of Finance. Additional information intended for the investor community is available on the Investor Relations page also located on the City's website listed above.



BASIC FINANCIAL STATEMENTS

Children's School, La Jolla, CA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STATEMENT OF NET POSITION
June 30, 2018
(Dollars in Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	San Diego Housing Commission
ASSETS				
Cash and Investments	$ 1,553,482	$ 757,566	$ 2,311,048	$ 152,839
Receivables:				
Taxes - Net of Allowance for Uncollectibles	166,019	—	166,019	—
Accounts - Net of Allowance for Uncollectibles	61,023	150,233	211,256	18,417
Claims	30,380	—	30,380	—
Contributions	1,881	—	1,881	—
Special Assessments	121	—	121	—
Notes	265,041	—	265,041	329,263
Loans	180,472	—	180,472	—
Accrued Interest	3,705	4,025	7,730	45,449
Grants	26,475	6,323	32,798	—
From Other Agencies	10,404	—	10,404	—
Advances to Other Agencies	4,394	—	4,394	—
Internal Balances	(227)	227	—	—
Inventories	1,351	66,469	67,820	—
Land Held for Resale	20,778	—	20,778	—
Prepaid Expenses	325	3,223	3,548	12,265
Restricted Cash and Investments	91,542	148,810	240,352	7,475
Other Assets	—	706	706	3,941
Capital Assets - Non-Depreciable	2,350,229	677,773	3,028,002	79,501
Capital Assets - Depreciable	2,727,078	5,498,783	8,225,861	201,908
TOTAL ASSETS	7,494,473	7,314,138	14,808,611	851,058
DEFERRED OUTFLOWS OF RESOURCES				
Loss on Refunding	15,125	128,385	143,510	—
Deferred Outflows Related to Other Postemployment Benefits	23,801	6,579	30,380	—
Deferred Outflows Related to Pensions	632,142	126,937	759,079	—
TOTAL DEFERRED OUTFLOWS OF RESOURCES	671,068	261,901	932,969	—
LIABILITIES				
Accounts Payable	118,850	116,512	235,362	12,602
Accrued Wages and Benefits	33,862	7,223	41,085	1,424
Other Accrued Liabilities	2,665	17,142	19,807	11,707
Interest Accrued on Long-Term Debt	4,939	19,346	24,285	4,367
Long-Term Liabilities Due Within One Year	175,861	132,355	308,216	5,541
Due to Other Agencies	32	—	32	—
Unearned Revenue	22,590	32,589	55,179	2,406

STATEMENT OF NET POSITION
June 30, 2018
(Dollars in Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	San Diego Housing Commission
LIABILITIES (Continued)				
Liabilities Payable from Restricted Assets:				
Customer Deposits Payable	$ —	$ 19,337	$ 19,337	$ —
Deposits/Advances from Others	—	8,051	8,051	2,110
Long-Term Liabilities Due After One Year:				
Arbitrage Liability	—	1,169	1,169	—
Compensated Absences	33,161	6,448	39,609	—
Liability Claims	288,934	28,013	316,947	—
Reimbursement Agreement Obligations	6,749	—	6,749	—
Capital Lease Obligations	179,851	3,123	182,974	—
QECB Lease Obligations	6,707	—	6,707	—
Contracts Payable	—	1,481	1,481	—
Notes Payable	—	9	9	181,738
Loans Payable	2,860	191,379	194,239	—
Section 108 Loans Payable	2,527	—	2,527	—
Commercial Paper Payable	—	168,213	168,213	—
Net Bonds Payable	636,120	1,525,474	2,161,594	—
Estimated Landfill Closure and Postclosure Care	—	53,003	53,003	—
Net Other Postemployment Benefits Liability	427,481	122,963	550,444	—
Pension Liabilities	2,059,282	473,308	2,532,590	—
TOTAL LIABILITIES	4,002,471	2,927,138	6,929,609	221,895
DEFERRED INFLOWS OF RESOURCES				
Gain on Refunding	—	2,548	2,548	—
Deferred Inflows Related to Other Postemployment Benefits	466	129	595	—
Deferred Inflows Related to Pensions	79,669	15,829	95,498	—
TOTAL DEFERRED INFLOWS OF RESOURCES	80,135	18,506	98,641	—
NET POSITION				
Net Investment in Capital Assets	4,308,123	4,383,725	8,691,848	107,299
Restricted for:				
Capital Projects	462,389	—	462,389	—
Debt Service	—	683	683	—
Low-Moderate Income Housing	338,828	—	338,828	—
Nonexpendable Permanent Endowments	17,836	—	17,836	—
Grants	179,469	—	179,469	—
Other	492,426	6,525	498,951	213,627
Unrestricted	(1,716,136)	239,462	(1,476,674)	308,237
TOTAL NET POSITION	$ 4,082,935	$ 4,630,395	$ 8,713,330	$ 629,163

The accompanying notes are an integral part of the financial statements.

STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government and Support	$ 364,533	$ 176,366	$ 17,341	$ 49
Public Safety - Police	542,128	40,738	5,891	233
Public Safety - Fire and Life Safety and Homeland Security	321,016	43,814	13,805	84
Parks, Recreation, Culture and Leisure	383,122	114,893	9,590	11,599
Transportation	264,278	51,422	59,097	14,193
Sanitation and Health	101,440	15,625	1,431	60
Neighborhood Services	91,686	40,123	27,527	—
Debt Service - Interest	36,515	—	—	—
TOTAL GOVERNMENTAL ACTIVITIES	2,104,718	482,981	134,682	26,218
Business-Type Activities:				
Sewer Utility	351,145	360,710	1,344	22,219
Water Utility	532,056	569,524	3,391	42,615
Airports	7,415	4,888	467	5,057
Development Services	78,287	70,703	—	—
Environmental Services	41,397	34,960	—	—
Golf Course	21,072	23,502	—	—
Recycling	25,002	27,957	1,085	—
San Diego Convention Center Corporation	37,986	34,256	3,671	218
TOTAL BUSINESS-TYPE ACTIVITIES	1,094,360	1,126,500	9,958	70,109
TOTAL PRIMARY GOVERNMENT	$ 3,199,078	$ 1,609,481	$ 144,640	$ 96,327
Component Unit:				
San Diego Housing Commission	$ 255,856	$ 51,311	$ 240,960	$ 3,487
General Revenues:				
Property Taxes				
Transient Occupancy Taxes				
Sales Taxes - Shared State Revenue (Unrestricted)				
Franchises				
Other Local Taxes				
Developer Contributions and Fees				
Grants and Contributions not Restricted to Specific Programs				
Investment Income				
Gain on Sale of Capital Assets				
Miscellaneous				
Transfers, Net				
TOTAL GENERAL REVENUES AND TRANSFERS				
CHANGE IN NET POSITION				
Net Position at Beginning of Year, as Restated				
NET POSITION AT END OF YEAR				

Net Revenue/(Expense) and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	San Diego Housing Commission
$ (170,777)	$ —	$ (170,777)	$ —
(495,266)	—	(495,266)	—
(263,313)	—	(263,313)	—
(247,040)	—	(247,040)	—
(139,566)	—	(139,566)	—
(84,324)	—	(84,324)	—
(24,036)	—	(24,036)	—
(36,515)	—	(36,515)	—
(1,460,837)	—	(1,460,837)	—
—	33,128	33,128	—
—	83,474	83,474	—
—	2,997	2,997	—
—	(7,584)	(7,584)	—
—	(6,437)	(6,437)	—
—	2,430	2,430	—
—	4,040	4,040	—
—	159	159	—
—	112,207	112,207	—
(1,460,837)	112,207	(1,348,630)	—
—	—	—	39,902
548,509	—	548,509	—
231,863	—	231,863	—
323,113	—	323,113	—
96,313	—	96,313	—
52,603	—	52,603	—
82,883	—	82,883	—
833	—	833	—
13,337	8,435	21,772	10,981
809	—	809	3
15,959	13,758	29,717	—
(2,814)	2,814	—	—
1,363,408	25,007	1,388,415	10,984
(97,429)	137,214	39,785	50,886
4,180,364	4,493,181	8,673,545	578,277
$ 4,082,935	$ 4,630,395	$ 8,713,330	$ 629,163

The accompanying notes are an integral part of the financial statements.

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018
(Dollars in Thousands)

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Investments	$ 267,033	$ 1,143,882	$ 1,410,915
Receivables:			
Taxes - Net of Allowance for Uncollectibles	106,294	59,725	166,019
Accounts - Net of Allowance for Uncollectibles	37,274	20,795	58,069
Claims	—	30,380	30,380
Special Assessments	—	121	121
Notes	—	265,041	265,041
Loans	—	180,472	180,472
Accrued Interest	1,053	2,460	3,513
Grants	—	26,198	26,198
From Other Funds	27,117	—	27,117
From Other Agencies	10,404	—	10,404
Contributions	968	—	968
Advances to Other Funds	733	—	733
Advances to Other Agencies	—	4,394	4,394
Land Held for Resale	—	20,778	20,778
Prepaid Items	130	195	325
Restricted Cash and Investments	6,087	85,455	91,542
TOTAL ASSETS	$ 457,093	$ 1,839,896	$ 2,296,989
LIABILITIES			
Accounts Payable	$ 42,769	$ 67,297	$ 110,066
Accrued Wages and Benefits	31,647	379	32,026
Other Accrued Liabilities	1,276	1,259	2,535
Due to Other Funds	—	27,117	27,117
Due to Other Agencies	9	23	32
Unearned Revenue	—	22,590	22,590
Advances from Other Funds	—	733	733
TOTAL LIABILITIES	75,701	119,398	195,099
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Taxes	22,215	32,780	54,995
Unavailable Revenue - Grants	—	19,440	19,440
Unavailable Revenue - Other	5,373	13,260	18,633
TOTAL DEFERRED INFLOWS OF RESOURCES	27,588	65,480	93,068

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018
(Dollars in Thousands)

	General Fund	Other Governmental Funds	Total Governmental Funds
FUND BALANCES			
Nonspendable	863	18,042	18,905
Restricted	132,307	1,582,579	1,714,886
Committed	100,483	97,911	198,394
Assigned	24,717	—	24,717
Unassigned	95,434	(43,514)	51,920
TOTAL FUND BALANCES	353,804	1,655,018	2,008,822
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 457,093	$ 1,839,896	

Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources, and therefore, are not reported at the fund level.	4,930,839
Certain assets and deferred outflows of resources are not financial resources (uses), and therefore, are not reported at the fund level.	653,012
Unavailable revenues are not financial resources, and therefore, are reported as deferred inflows of resources.	93,068
Internal service funds are used by management to charge the costs of activities such as Fleet Operations, Central Stores, Publishing Services, and Employee Benefit Programs to individual funds. The assets, deferred outflows of resources, liabilities and deferred inflows of resources of internal service funds are included in governmental activities on the Statement of Net Position.	160,720
Certain liabilities and deferred inflows of resources, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the funds.	(3,763,526)
Net Position of Governmental Activities (page 51)	$ 4,082,935

The accompanying notes are an integral part of the financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Property Taxes	$ 535,481	$ 13,389	$ 548,870
Special Assessments	—	63,870	63,870
Sales Taxes - Shared State Revenue	282,321	31,702	314,023
Transient Occupancy Taxes	121,904	109,959	231,863
Franchises	96,208	63,977	160,185
Other Local Taxes	52,608	—	52,608
Licenses and Permits	22,000	86,516	108,516
Fines, Forfeitures and Penalties	30,708	1,449	32,157
Revenue from Use of Money and Property	71,994	31,752	103,746
Revenue from Federal Agencies	2,053	52,283	54,336
Revenue from Other Agencies	10,012	25,658	35,670
Revenue from Private Sources	1,225	8,123	9,348
Charges for Current Services	263,266	26,465	289,731
Other Revenue	12,236	4,068	16,304
TOTAL REVENUES	1,502,016	519,211	2,021,227
EXPENDITURES			
Current:			
General Government and Support	333,591	29,535	363,126
Public Safety - Police	467,555	6,414	473,969
Public Safety - Fire and Life Safety and Homeland Security	273,220	12,347	285,567
Parks, Recreation, Culture and Leisure	167,965	154,502	322,467
Transportation	121,837	54,094	175,931
Sanitation and Health	91,166	4,200	95,366
Neighborhood Services	33,650	64,328	97,978
Capital Outlay	34,602	218,647	253,249
Debt Service:			
Principal Retirement	7,058	33,903	40,961
Cost of Issuance	—	1,500	1,500
Interest	7,713	47,281	54,994
Payment to Refunded Bond Escrow Agent	—	13,125	13,125
TOTAL EXPENDITURES	1,538,357	639,876	2,178,233
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(36,341)	(120,665)	(157,006)

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	General Fund	Other Governmental Funds	Total Governmental Funds
OTHER FINANCING SOURCES (USES)			
Transfers from Proprietary Funds	$ —	$ 61	$ 61
Transfers from Other Funds	47,231	95,769	143,000
Transfers to Proprietary Funds	(1,862)	(1,215)	(3,077)
Transfers to Other Funds	(44,319)	(98,681)	(143,000)
Payment to Refunded Bond Escrow Agent	—	(183,745)	(183,745)
Proceeds from the Sale of Capital Assets	—	2,037	2,037
Capital Lease Proceeds	15,636	16,191	31,827
Lease Revenue Bonds Issued	—	129,320	129,320
Tobacco Settlement Bonds Issued	—	97,855	97,855
Discount on Bonds Issued	—	(204)	(204)
TOTAL OTHER FINANCING SOURCES (USES)	16,686	57,388	74,074
NET CHANGE IN FUND BALANCES	(19,655)	(63,277)	(82,932)
Fund Balances at Beginning of Year	373,459	1,718,295	2,091,754
FUND BALANCES AT END OF YEAR	$ 353,804	$ 1,655,018	$ 2,008,822

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

Net Change in Fund Balances of Governmental Funds (page 57)	$	(82,932)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Donated assets are not financial resources, and therefore, are not reported in the funds. This is the amount by which capital outlays and donated assets exceeded depreciation in the current period.		118,646
The net effect of various miscellaneous transactions involving capital assets (e.g., retirements and transfers) is to decrease net position.		(8,121)
Revenues available to liquidate liabilities of the current period were recognized in the governmental funds during the current year; however, such amounts were recognized as revenue in the Statement of Activities in the prior year.		11,436
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(21,171)
Some expenses reported in the Statement of Activities do not require the use of current financial resources (e.g., compensated absences, net pension liability), and therefore are not accrued as expenditures in governmental funds.		(116,063)
Internal service funds are used to charge the costs of activities such as Fleet Operations, Central Stores, Publishing Services, and Employee Benefit Programs to individual funds. The net income of certain internal service activities is reported with governmental activities.		776
Change in Net Position of Governmental Activities (page 53)	$	(97,429)

The accompanying notes are an integral part of the financial statements.


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PROPRIETARY FUNDS
STATEMENT OF FUND NET POSITION
June 30, 2018
(Dollars in Thousands)

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
ASSETS					
Current Assets:					
Cash and Investments	$ 320,644	$ 260,037	$ 174,117	$ 754,798	$ 145,335
Receivables:					
Accounts - Net of Allowance for Uncollectibles	49,253	86,118	14,862	150,233	2,954
Contributions	—	—	—	—	913
Accrued Interest	1,758	1,285	969	4,012	205
Grants	—	1,227	5,096	6,323	277
Inventories	—	66,013	38	66,051	1,769
Total Current Assets	371,655	414,680	195,082	981,417	151,453
Non-Current Assets:					
Restricted Cash and Investments	69,772	23,951 [1]	55,087	148,810	—
Prepaid Expenses	—	—	3,223	3,223	—
Other Assets	—	—	706	706	—
Capital Assets - Non-Depreciable	210,690	440,538	26,545	677,773	3,849
Capital Assets - Depreciable	2,975,500	2,414,208	109,075	5,498,783	142,619
Total Non-Current Assets	3,255,962	2,878,697	194,636	6,329,295	146,468
TOTAL ASSETS	3,627,617	3,293,377	389,718	7,310,712	297,921
DEFERRED OUTFLOWS OF RESOURCES					
Loss on Refunding	73,293	55,092	—	128,385	—
Deferred Outflows Related to Other Postemployment Benefits	1,949	2,406	2,224	6,579	937
Deferred Outflows Related to Pensions	39,585	48,298	39,054	126,937	17,119
TOTAL DEFERRED OUTFLOWS OF RESOURCES	114,827	105,796	41,278	261,901	18,056

PROPRIETARY FUNDS
STATEMENT OF FUND NET POSITION
June 30, 2018
(Dollars in Thousands)

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 23,163	$ 81,376	$ 11,685	$ 116,224	$ 9,072
Accrued Wages and Benefits	2,499	2,204	2,520	7,223	1,836
Other Accrued Liabilities	9,690	4,599	2,853	17,142	130
Interest Accrued on Long-Term Debt	5,547	13,799	—	19,346	233
Long-Term Liabilities Due Within One Year	82,303	44,208	5,844	132,355	14,796
Unearned Revenue	916	3,971	27,702	32,589	—
Current Liabilities Payable from Restricted Assets:					
Customer Deposits Payable	—	7,786	11,551	19,337	—
Total Current Liabilities	124,118	157,943	62,155	344,216	26,067
Non-Current Liabilities:					
Non-Current Liabilities Payable from Restricted Assets:					
Deposits/Advances from Others	—	—	8,051	8,051	—
Arbitrage Liability	—	1,169	—	1,169	—
Compensated Absences	2,079	2,308	2,061	6,448	3,327
Liability Claims	9,770	12,606	5,637	28,013	7,309
Capital Lease Obligations	392	392	2,339	3,123	26,415
Loans Payable	94,008	71,871	25,500	191,379	—
Notes Payable	—	—	9	9	—
Contracts Payable	—	—	1,481	1,481	—
Commercial Paper Payable	—	168,213	—	168,213	—
Net Revenue Bonds Payable	808,558	716,916	—	1,525,474	—
Estimated Landfill Closure and Postclosure Care	—	—	53,003	53,003	—
Net Other Postemployment Benefits Liability	43,714	42,338	36,911	122,963	20,376
Pension Liabilities	167,200	160,404	145,704	473,308	66,417
Total Non-Current Liabilities	1,125,721	1,176,217	280,696	2,582,634	123,844
TOTAL LIABILITIES	1,249,839	1,334,160	342,851	2,926,850	149,911
DEFERRED INFLOWS OF RESOURCES					
Gain on Refunding	—	2,548	—	2,548	—
Deferred Inflows Related to Other Postemployment Benefits	40	46	43	129	18
Deferred Inflows Related to Pensions	4,649	6,267	4,913	15,829	2,190
TOTAL DEFERRED INFLOWS OF RESOURCES	4,689	8,861	4,956	18,506	2,208
NET POSITION					
Net Investment in Capital Assets	2,347,463	1,927,030	109,232	4,383,725	110,383
Restricted for Debt Service	518	165	—	683	—
Restricted for Closure/Postclosure Maintenance	—	—	5,698	5,698	—
Restricted for Other	—	—	827	827	—
Unrestricted (Deficit)	139,935	128,957	(32,568)	236,324	53,475
TOTAL NET POSITION	$ 2,487,916	$ 2,056,152	$ 83,189	4,627,257	$ 163,858
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds				3,138	
Net position of business-type activities (page 51)				$ 4,630,395	

The accompanying notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES					
Sales of Water	$ —	$ 551,275	$ —	$ 551,275	$ —
Charges for Services	353,628	5,218	163,527	522,373	120,464
Revenue from Use of Property	801	6,104	25,209	32,114	—
Other	6,281	6,927	11,201	24,409	73
TOTAL OPERATING REVENUES	360,710	569,524	199,937	1,130,171	120,537
OPERATING EXPENSES					
Salaries and Employee Benefits	98,548	89,891	115,967	304,406	39,940
Materials and Supplies	23,555	211,688	7,204	242,447	21,272
Contractual Services	71,146	108,325	56,430	235,901	10,899
Information Technology	7,278	5,658	4,052	16,988	1,893
Energy and Utilities	19,938	13,535	9,079	42,552	12,422
Depreciation	75,302	57,007	7,817	140,126	20,803
Benefit and Claim Expenses	—	—	—	—	16,944
Other Expenses	524	4,334	9,279	14,137	30
TOTAL OPERATING EXPENSES	296,291	490,438	209,828	996,557	124,203
OPERATING INCOME (LOSS)	64,419	79,086	(9,891)	133,614	(3,666)
NONOPERATING REVENUES (EXPENSES)					
Earnings on Investments	4,275	2,085	2,067	8,427	416
Federal Grant Assistance	1,344	3,126	467	4,937	—
Other Agency Grant Assistance	—	265	1,085	1,350	656
Gain (Loss) on Sale/Retirement of Capital Assets	(15,366)	(15,327)	(587)	(31,280)	728
Debt Service Interest Expense	(38,900)	(25,512)	(766)	(65,178)	(658)
Other	8,230	4,480	1,048	13,758	414
TOTAL NONOPERATING REVENUES (EXPENSES), NET	(40,417)	(30,883)	3,314	(67,986)	1,556
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	24,002	48,203	(6,577)	65,628	(2,110)
Capital Contributions	22,219	42,633	5,304	70,156	1,300
Transfers from Other Funds	1,228	—	573	1,801	3,000
Transfers from Governmental Funds	563	495	1,771	2,829	248
Transfers to Other Funds	(2,000)	(2,228)	(573)	(4,801)	—
Transfers to Governmental Funds	(24)	(14)	(17)	(55)	(6)
TOTAL CONTRIBUTIONS AND TRANSFERS	21,986	40,886	7,058	69,930	4,542
CHANGE IN NET POSITION	45,988	89,089	481	135,558	2,432
Net Position at Beginning of Year, as Restated	2,441,928	1,967,063	82,708		161,426
NET POSITION AT END OF YEAR	$ 2,487,916	$ 2,056,152	$ 83,189		$ 163,858
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds				1,656	
Change in net position of business-type activities (page 53)				$ 137,214	

The accompanying notes are an integral part of the financial statements.

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PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers and Users	$ 359,025	$ 550,071	$ 195,088	$ 1,104,184	$ 25,157
Receipts from Interfund Services Provided	3,265	4,398	3,957	11,620	94,734
Payments to Suppliers	(134,620)	(332,137)	(84,174)	(550,931)	(47,358)
Payments to Employees	(79,553)	(65,541)	(96,445)	(241,539)	(46,118)
Payments for Interfund Services Used	(6,259)	(10,547)	(7,844)	(24,650)	(1,762)
NET CASH PROVIDED BY OPERATING ACTIVITIES	141,858	146,244	10,582	298,684	24,653
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from Other Funds	1,228	—	573	1,801	3,000
Transfers from Governmental Funds	563	495	1,771	2,829	248
Transfers to Other Funds	(2,000)	(2,228)	(573)	(4,801)	—
Transfers to Governmental Funds	(24)	(14)	(17)	(55)	(6)
Operating Grants	1,344	2,234	1,537	5,115	490
Proceeds from Advances and Deposits	—	416	16	432	—
Payments for Advances and Deposits	—	—	(43)	(43)	—
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	1,111	903	3,264	5,278	3,732
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from Loans	10,311	13,046	—	23,357	—
Proceeds from Commercial Paper	—	125,744	—	125,744	—
Proceeds from Capital Contributions	19,545	18,518	413	38,476	—
Proceeds from the Sale of Capital Assets	—	581	31	612	1,300
Loans to Others	—	—	(575)	(575)	—
Acquisition of Capital Assets	(116,786)	(191,701)	(19,000)	(327,487)	(17,971)
Principal Payments on Capital Leases	(185)	(185)	(1,097)	(1,467)	(8,010)
Principal Payments on Loans	(8,922)	(2,820)	—	(11,742)	—
Principal Payments on Notes	—	—	(2)	(2)	—
Principal Payments on Revenue Bonds	(58,310)	(28,405)	—	(86,715)	—
Decrease in Arbitrage Liability	—	33	—	33	—
Interest Paid on Long-Term Debt	(41,967)	(34,399)	(1,249)	(77,615)	(548)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(196,314)	(99,588)	(21,479)	(317,381)	(25,229)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sales of Investments	123,922	88,997	—	212,919	—
Purchases of Investments	(124,648)	(88,522)	(3,544)	(216,714)	—
Proceeds from Restricted Investment	—	—	16,745	16,745	—
Interest Received on Investments	4,431	1,419	1,715	7,565	353
NET CASH PROVIDED BY INVESTING ACTIVITIES	3,705	1,894	14,916	20,515	353
Net Increase (Decrease) in Cash and Cash Equivalents	(49,640)	49,453	7,283	7,096	3,509
Cash and Cash Equivalents at Beginning of Year	375,650	218,370	215,993	810,013	141,826
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 326,010	$ 267,823	$ 223,276	$ 817,109	$ 145,335
Reconciliation of Cash and Cash Equivalents at End of Year to the Statement of Net Position:					
Cash and Investments	$ 320,644	$ 260,037	$ 174,117	$ 754,798	$ 145,335
Restricted Cash and Investments	69,772	23,951	55,087	148,810	—
Less Investments Not Meeting the Definition of Cash Equivalents	(64,406)	(16,165)	(5,928)	(86,499)	—
TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 326,010	$ 267,823	$ 223,276	$ 817,109	$ 145,335

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Operating Income (Loss)	$ 64,419	$ 79,086	$ (9,891)	$ 133,614	$ (3,666)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Depreciation	75,302	57,007	7,817	140,126	20,803
Other Nonoperating Revenues	8,230	4,480	1,048	13,758	414
(Increase) Decrease in Assets:					
Accounts Receivable - Net	(8,120)	(17,195)	(744)	(26,059)	(979)
Contributions Receivable	—	—	—	—	(80)
Due from Other Funds	3,032	—	—	3,032	—
Inventories	—	604	—	604	(66)
Prepaid Expenses	—	—	935	935	—
Increase (Decrease) in Liabilities and Net Deferred Outflows/Inflows of Resources:					
Accounts Payable	(8,517)	13,073	(1,315)	3,241	2,690
Accrued Wages and Benefits	21	86	180	287	104
Other Accrued Liabilities	—	—	436	436	—
Due to Other Agencies	52	(3,506)	—	(3,454)	—
Unearned Revenue	(1,574)	(2,340)	(1,196)	(5,110)	—
Contract Deposits	12	—	—	12	—
Contracts Payable	—	—	(694)	(694)	—
Compensated Absences	(172)	(50)	(180)	(402)	348
Liability Claims	(301)	2,704	436	2,839	1,153
Estimated Landfill Closure and Postclosure Care	—	—	4,473	4,473	—
Net Other Postemployment Benefits Liability and Related Changes in Deferred Outflows/Inflows of Resources	167	34	51	252	(11)
Pension Liabilities and Related Changes in Deferred Outflows/Inflows of Resources	9,307	12,261	9,226	30,794	3,943
Total Adjustments	77,439	67,158	20,473	165,070	28,319
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 141,858	$ 146,244	$ 10,582	$ 298,684	$ 24,653
Noncash Investing, Capital, and Financing Activities:					
Capital Assets Acquired through Capital Leases	$ —	$ —	$ —	$ —	$ 14,413
Developer Contributed Assets	2,674	24,097	—	26,771	—
Acquisition of Capital Assets	—	—	1,473	1,473	42
Capital Contributions Related to Grants Receivable	—	—	4,644	4,644	—
Capital Asset Acquisitions Related to Accounts Payable	779	2,477	5,417	8,673	80
Carrying Value of Retired Capital Assets	(15,363)	(15,327)	(574)	(31,264)	(492)
Capitalized Interest and Related Amounts	583	5,695	343	6,621	—
Amortization of Bond Premiums, Discounts and Refundings	2,120	(2,677)	—	(557)	—
Change in Fair Value of Investments	545	(64)	—	481	—
Interest Fund Credits for Debt Service Payments	(396)	(482)	—	(878)	—
Transfers of Capital Assets (To) From Governmental Activities	(3)	14	(1)	10	1,207
Transfers of Capital Assets (To) From Other Funds	(1)	1	29	29	(29)

The accompanying notes are an integral part of the financial statements

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2018
(Dollars in Thousands)

	Trust Funds		
	Pension	Private-Purpose	Agency
ASSETS			
Cash and Investments	$ 2,114	$ 88,938	$ 31,979
Cash and Investments with Custodian/Fiscal Agent	288,588	—	—
Investments at Fair Value:			
Domestic Fixed Income Securities	2,043,704	—	—
International Fixed Income Securities	562,128	—	—
Domestic Equity Securities	1,798,974	—	—
International Equity Securities	1,302,229	—	—
Global Equity Securities	394,933	—	—
Real Estate	837,876	—	—
Equity Mutual Funds	799,969	—	—
Fixed Income Mutual Funds	394,379	—	—
Private Equity and Infrastructure	1,143,575	—	—
Receivables:			
Accounts - Net	—	—	762
Special Assessments	—	—	133
Contributions	3,265	—	—
Accrued Interest	8,439	210	22
Notes and Contracts	—	4,015	—
Loans	34,001	—	—
Securities Sold	170,177	—	—
Land Held for Resale	—	2,199	—
Prepaid Expenses	187	157	—
Securities Lending Collateral	171,321	—	—
Restricted Cash and Investments	—	44,001	34,292
Capital Assets - Non-Depreciable	—	13,438	—
Capital Assets - Depreciable	4,958	45,991	—
TOTAL ASSETS	9,960,817	198,949	67,188
DEFFERRED OUTFLOWS OF RESOURCES			
Loss on Refunding	—	25,133	—

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2018
(Dollars in Thousands)

	Trust Funds		
	Pension	Private-Purpose	Agency
LIABILITIES			
Accounts Payable	$ 4,514	$ 415	$ 10,764
Accrued Wages and Benefits	672	—	—
Interest Accrued on Long-Term Debt	—	163,096	—
Deposits/Advances from Others	—	—	26
Sundry Trust/Agency Liabilities	—	433	35,113
Due to Bondholders	—	431,244	21,285
Liability Claims	—	68,297	—
Loans Payable	—	39,637	—
Supplemental Benefits Payable	11,788	—	—
Securities Lending Obligations	171,306	—	—
Securities Purchased	468,429	—	—
TOTAL LIABILITIES	656,709	703,122	67,188
DEFFERRED INFLOWS OF RESOURCES			
Gain on Refunding	—	3,321	—
NET POSITION (DEFICIT)			
Restricted for Pension Benefits	9,304,108	—	—
Held in Trust for Other Purposes	—	(482,361)	—
TOTAL NET POSITION (DEFICIT)	$ 9,304,108	$ (482,361)	$ —

The accompanying notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Trust Funds	
	Pension	Private-Purpose
ADDITIONS		
Employer Contributions	$ 416,355	$ —
Plan Member Contributions:		
Employee Contributions	125,860	—
DROP Contributions	5,521	—
Retiree Contributions	8,040	—
Redevelopment Property Tax Trust Fund	—	94,716
Earnings on Investments:		
Investment Income	166,229	541
Investment Expense	(38,253)	—
Net Appreciation in Fair Value of Investments	597,091	—
Net Investment Income	725,067	95,257
Securities Lending Income:		
Gross Earnings	3,448	—
Borrower Rebates and Bank Charges	(2,459)	—
Net Securities Lending Income	989	—
Capital Contributions	—	1,299
Other Income	999	4,557
TOTAL ADDITIONS	1,282,831	101,113
DEDUCTIONS		
Enforceable Obligation Payments	—	5,199
Interest on Long-Term Debt	—	17,665
DROP Interest Expense	23,008	—
Benefit and Claim Payments	640,757	—
Disposal of Assets	—	896
Administration	12,166	—
Depreciation	—	1,804
TOTAL DEDUCTIONS	675,931	25,564
CHANGE IN NET POSITION	606,900	75,549
Net Position (Deficit) at Beginning of Year	8,697,208	(557,910)
NET POSITION (DEFICIT) AT END OF YEAR	$ 9,304,108	$ (482,361)

The accompanying notes are an integral part of the financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Dollars in Thousands)

The City of San Diego (City) adopted its current charter on April 7, 1931 and operates as a municipality in accordance with State laws. Since adoption, the City Charter has been amended many times.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the City's significant accounting policies:

a. Financial Reporting Entity

As required by GAAP, these financial statements present the primary government and its component units. The City is the primary government, while entities for which the primary government is considered to be financially accountable represent its component units. Component units can be blended with the primary government or discretely presented.

A blended component unit is a legally separate entity whose functions are an integral part of the primary government. A component unit is considered to be an integral part of the primary government, and hence a blended component unit, in any of these circumstances: (1) the entity and the primary government substantively have the same governing body and a financial benefit/burden relationship exists; (2) the entity and the primary government substantially have the same governing body and management of the primary government have operational responsibility for the entity; (3) if the entity exists to serve or benefit exclusively (or almost exclusively) the primary government; (4) the total debt of the entity is repayable entirely (or almost entirely) from resources of the primary government; or (5) the entity is organized as a not-for-profit corporation in which the primary government is the sole corporate member, as identified in the entity's articles of incorporation or bylaws. Blended component units are reported as funds of the primary government.

A discretely presented component unit does not function as an integral part of the primary government. It is reported in the government-wide financial statements in a column separate from the primary government. The City also reports fiduciary component units which are not included in the government-wide financial statements. Fiduciary component units are not part of the primary government and are reported as fiduciary funds to account for assets held in a trustee or agency capacity for others that cannot be used to support the government's own programs.

Included within the reporting entity as blended component units are the following:

- Civic San Diego
- Convention Center Expansion Financing Authority
- Public Facilities Financing Authority
- San Diego Convention Center Corporation
- San Diego Facilities and Equipment Leasing Corporation
- Otay Mesa Enhanced Infrastructure Financing District Public Financing Authority
- Tobacco Settlement Revenue Funding Corporation

A brief description of each blended component unit follows:

- Civic San Diego (CSD) is a not-for-profit public benefit corporation established upon dissolution of the former San Diego Redevelopment Agency (RDA). One of CSD's primary functions is providing administrative and advisory services to the City as the Successor Agency. CSD also assists the City with downtown parking management administration and affordable housing development. CSD is governed by a nine member board appointed by the Mayor and City Council. CSD's budget and governing board are approved by the City of San Diego and services primarily benefit the City. CSD is reported as a governmental fund. Financial statements are available at www.civicsd.com.

- The Convention Center Expansion Financing Authority (CCEFA) was established in 1996 by the City and the San Diego Unified Port District (Port) to acquire and construct the expansion of the existing convention center. The CCEFA is governed by a board consisting of the Mayor, the City Manager, the President/CEO of the Port, and a member of the Board of Commissioners for the Port. The current working title of the City Manager is the Chief Operating Officer. The CCEFA provides services which primarily benefit the City. CCEFA is reported as a governmental fund.

- The Public Facilities Financing Authority (PFFA) was established in 1991 by the City and the former RDA to acquire and construct public capital improvements. As of June 30, 2018, the members are the City, the Successor Agency, and the Housing Authority of the City of San Diego. PFFA is governed by a board of commissioners composed of the members of the City Council. PFFA provides services exclusively to the City. Financing for governmental funds is reported as a governmental activity and financing for enterprise funds is reported as a business-type activity.

- San Diego Convention Center Corporation (SDCCC) is a not-for-profit public benefit corporation, originally organized to market, operate, and maintain the San Diego Convention Center. The City is the sole member of SDCCC and acts through the San Diego City Council in accordance with the City Charter and the City's Municipal Code. The City appoints all seven voting members to the Board of Directors of SDCCC. In accordance with the management agreement with SDCCC, the City allocates to SDCCC approved budgetary amounts for marketing, promotion, and capital projects for the Convention Center. SDCCC is reported as an enterprise fund. Complete stand-alone financial statements are available at www.visitsandiego.com.

- The San Diego Facilities and Equipment Leasing Corporation (SDFELC) is a not-for-profit public benefit corporation established in 1987 for the purpose of acquiring and leasing to the City real and personal property to be used in the municipal operations of the City. SDFELC is governed by a three member board consisting of the City Attorney, the Chief Financial Officer, and the Mayor. Services are provided exclusively to the City. Financing provided through SDFELC for governmental funds is reported as a governmental activity and financing for enterprise funds is reported as a business-type activity.

- The Otay Mesa Enhanced Infrastructure Financing District Public Financing Authority (EIFDPFA) was established in 2017 by the City of San Diego to finance certain public infrastructure and community benefit projects authorized under the Enhanced Infrastructure Financing District (EIFD) Law Government Code sections 53398.50 through 53398.88. The Otay Mesa EIFD governing board consists of three members of the City Council and two members of the public, all whom are appointed by the City Council. Services provided primarily benefit the City. Future financing for governmental funds will be reported as a governmental activity.

- The Tobacco Settlement Revenue Funding Corporation (TSRFC) is a not-for-profit public benefit corporation established in 2006 for the purpose of acquiring the tobacco settlement revenues allocated to the City from the State of California, pursuant to the Master Settlement Agreement. TSRFC purchased from the City the rights to receive future tobacco settlement revenues due to the City. TSRFC is governed by a board of directors, which consists of the Chief Operating Officer, the Chief Financial Officer, and one independent director. The independent director, currently vacant, is appointed by the Mayor or the remaining directors. TSRFC is reported as a governmental fund.

There are two fiduciary component units:

- San Diego City Employees' Retirement System (SDCERS) was established in 1927 by the City and administers independent, qualified, single employer governmental defined benefit plans and trusts for the City, the Port and the San Diego County Regional Airport Authority (Airport). SDCERS' Board of Administration (Board) adopted a Declaration of Group Trust, effective July 1, 2007. Under the Group Trust, the City, Port and Airport plans are treated as separate plans, with assets pooled for investment purposes only. SDCERS also processes certain postemployment healthcare activities on behalf of the City. SDCERS is a legally separate, fiduciary component unit of the City. It is governed by a 13 member Board of Administration, eight of which are appointed by the City, and a Pension Administrator who does not report to or work under the direction of the elected officials or appointed managers of the City. As such, the City does not maintain direct operational oversight of SDCERS or its financial reports. SDCERS provides services primarily to the City and is reported as a pension trust fund. Complete stand- alone financial statements are available at www.sdcers.org.

- The Successor Agency of the Redevelopment Agency of the City of San Diego (Successor Agency) is a legally separate entity from the City, reported as a fiduciary component unit. It was established to hold the former RDA's assets until they are distributed to other units of state and local government, or where appropriate, to private parties, and to administer the payments of the former RDA's obligations. Pursuant to ABX1 26, redevelopment agencies and their successor agencies in the State of California generally cannot enter into new projects, obligations or commitments. On January 12, 2012, the City was designated to serve as the Successor Agency subject to control of an oversight board. The Successor Agency is reported as a private-purpose trust fund in the fiduciary funds financial statements.

There is one discretely presented component unit:

- San Diego Housing Commission (SDHC) is a governmental agency, which was formed by the City under Ordinance No. 2515 on December 5, 1978 in accordance with the Housing Authority Law of the State of California. SDHC's priority is to serve low and moderate income persons by providing rental assistance payments, rental housing, loans and grants to families, individuals and not-for-profit organizations to create and preserve affordable housing. SDHC is governed by the San Diego Housing Authority (Housing Authority), which is composed of the nine members of the San Diego City Council. The Housing Authority is assisted by a Board of Commissioners, a seven-member advisory body appointed by the Mayor and confirmed by the City Council. The Housing Authority has final authority over the SDHC's budget and major policy changes. SDHC is discretely presented because the City appoints the voting members of the SDHC Board, is financially accountable for SDHC, and SDHC provides its services directly to the citizens.

  SDHC has seven blended component units and nineteen discretely presented component units which are included in the City's basic financial statements. The discretely presented component units are financially and legally separate entities from SDHC. SDHC's discretely presented component units reflect the financial reporting entity of consolidated Housing Development Partners, which includes the legal entities: Housing Development Partners of San Diego (HDP); HDP Mason Housing Corporation; Casa Colina, LP; Logan Development II, LP; HDP Broadway, LP; HDP Churchill, LP; HDP Parker Kier, LLC; HDP New Palace, LP; Logan Development Management, LLC; HDP Broadway Management, LLC; HDP Churchill, LLC; HDP Island Village, LLC, HDP

New Palace Management, LLC; HDP Village North, LLC; HDP West Park, LP; HDP West Park Management, LLC; HDP Quality Inn, LLC; HDP Town and Country, LP; and HDP Town and Country, LLC, collectively referred to as the "Corporation". Complete stand-alone financial statements are available at www.sdhc.org.

Each blended and discretely presented component unit of the City has a June 30 fiscal year-end, with the exception of SDHC's discretely presented component units, which have a December 31 fiscal year-end.

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the City and its blended component units. Governmental activities are normally supported by taxes and intergovernmental revenues and are reported separately from business-type activities, which rely to a significant extent on user fees and charges for support. The primary government is reported discretely from SDHC, a legally separate component unit for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable to a specific function or segment. Direct expenses reported include administrative and overhead charges. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items that do not qualify as program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, the latter of which are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other interfund services provided and used between functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues which are considered susceptible to accrual include: real and personal property taxes; special assessments collected via property taxes; sales taxes; transient occupancy taxes; other local taxes; franchise fees; fines, forfeitures and penalties; rents and concessions; interest; and state and federal grants and subventions, provided they are received within 60 days from the end of the fiscal year.

Licenses and permits, parking citations, and some miscellaneous revenues are recorded as revenues when received in cash because they generally are not measurable until actually received.

Expenditures are recognized when the related fund liability is incurred except for (1) principal and interest of general long-term debt, which are recognized when due; and (2) employee annual leave and claims and judgments from litigation, which are recorded in the period due and payable since such amounts will not currently be liquidated with expendable available financial resources. General capital asset acquisitions are reported as expenditures in governmental funds.
The governmental funds financial statements do not present long-term debt, but the related debt is shown in the reconciliation of the governmental funds Balance Sheet to the government-wide Statement of Net Position. Issuance of long-term debt, bond premiums, and discounts are reflected as other financing sources (uses) and recognized in the period in which they are issued.

Permanent funds, commonly referred to as endowment funds, are governmental funds used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support City programs. The City has received endowments for various programs, a list of which can be found in the Permanent Funds section of the Combining and Individual Fund Financial Statements and Schedules. The corpus of permanent funds is reported as Nonspendable Fund Balance and investment earnings available for expenditure are reported as Restricted Fund Balance in the fund level financial statements. The endowment principal is reported as Restricted for Nonexpendable Permanent Endowments in the Statement of Net Position. Funds are spent in accordance with the City budget, subject to State law governing the spending of endowment fund investment earnings in California Probate Code Section 18504.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units, and include the pension trust, private-purpose trust, and agency funds. Trust funds are reported using the same measurement focus and basis of accounting as proprietary funds. Agency funds are reported using the accrual basis of accounting and only report assets and liabilities, and therefore, do not have a measurement focus.

The following is the City's only major governmental fund:

General Fund - The General Fund is the principal operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

The following are the City's major enterprise funds:

Sewer Utility Fund - The Sewer Utility Fund is used to account for the operation, maintenance and development of the City's sewer system. The City's Sewer Utility Fund includes activities related to the performance of services for several local municipalities and other utility districts (Participating Agencies).

Water Utility Fund - The Water Utility Fund is used to account for operating and maintenance costs, replacements, betterments, expansion of facilities, and payments necessary in obtaining water from the Colorado River, the State Water Project, and local sources, and supplying water to its customers.

The following are the City's other fund types:

Internal Service Funds - These funds account for fleet vehicles and transportation, printing, and storeroom services provided to City departments on a cost-reimbursement basis. Internal service funds also account for energy conservation, risk management, unemployment insurance, unused compensatory time, unused sick leave, and long-term disability programs, which derive revenues from rates charged to benefiting departments.

Pension Trust Funds - These funds account for SDCERS, the Preservation of Benefits Plan, the Postemployment Healthcare Benefit Plan, the Supplemental Pension Savings Plan (SPSP), the 401(a) Plan and the 401(k) Plan.

Private-Purpose Trust Fund - This fund was established to account for the ongoing obligations of the Successor Agency (former RDA).

Agency Funds - These funds account for assets held by the City as an agent for individuals, private organizations, and other governments, including federal and state income taxes withheld from employees, parking citation revenues on behalf of other agencies, certain employee benefit plans, and special assessments.

d. Property Taxes

The County of San Diego (County) assesses, bills, and collects property taxes on behalf of numerous special districts and incorporated cities, including the City of San Diego. The City receives the current year's taxes through periodic apportionments from the County.

The County's tax calendar is from July 1 to June 30. Property taxes attach as a lien on property on January 1. Taxes are levied on July 1, based on the assessed values as of the lien date, are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively. Since the passage of California's Proposition 13, beginning with fiscal year ended 1979, general property taxes are based on either (1) a flat 1% rate applied to the 1975-76 full value of the property or (2) 1% of the sales price of any property sold or of the cost of any new construction after the 1975-76 valuation. Taxable values of properties (exclusive of increases related to sales and new construction) can increase by a maximum of 2% per year. The Proposition 13 limitation on general property taxes does not apply to taxes levied to pay the debt service on any indebtedness approved by the voters prior to June 6, 1978 (the date of passage of Proposition 13).

At the government-wide level, property tax revenue is recognized in the fiscal year for which the taxes have been levied. Property taxes received after the fiscal year and which do not meet the 60 day availability criterion are not considered available as a resource that can be used to finance the current year operations of the City and, therefore, are recorded as deferred inflows of resources in the governmental funds. The City provides an allowance for uncollectible property taxes, which is analyzed each year against the most recent data from the County. For fiscal year 2018, the allowance amount was $2,176.

Property owners can appeal the assessment value of their property to the County Assessment Appeals Board. If successful, the County Assessor may reduce the taxable value of a property and/or provide a refund to affected property owners. Reductions of taxable property value within the City of San Diego have a negative impact on future tax collections until assessed valuations increase.

e. Cash and Investments

The City's cash and cash equivalents for the Statement of Cash Flows purposes include cash on hand, demand deposits, restricted cash, and investments held in the City Treasurer's Pooled Investment Fund (pool) and are reported at fair value. Cash equivalents reported in the Statement of Cash Flows for the Water and Sewer Utility Funds do not include restricted investments represented as Restricted Cash and Investments with an original maturity date greater than ninety days from the time of purchase.

The City's cash resources are combined to form a cash and investment pool managed by the City Treasurer. The City is not required to register the pool as an investment company with the Securities and Exchange Commission (SEC). The investment activities of the City Treasurer in managing the pool are governed by California Government Code § 53601 and the City of San Diego City Treasurer's Investment Policy, which is reviewed by the City Treasurer's Investment Advisory Committee and presented annually to the City Council. Interest earned on pooled investments is allocated to participating funds and entities based upon their average daily cash balance during the allocation month. Fair value adjustments to the pool are recorded annually; however, the City Treasury reports on market values monthly. The pool participates in the California State Treasurer's Local Agency Investment Fund (LAIF). Investments in LAIF are governed by State statutes and overseen by a five member Local Investment Advisory Board. The fair value of the City's position in LAIF may be greater or less than the value of the shares. Investments in LAIF are valued in these financial statements using a fair value factor provided by LAIF applied to the value of the City's shares in the investment pool.

Certain governmental funds maintain investments outside of the pool. These funds are supervised and controlled by a five member Funds Commission, which is appointed by the Mayor and confirmed by the City Council. The Funds Commission engages money managers to direct the investments of these funds. Additionally, the City and its component units maintain individual accounts pursuant to bond issuances and major construction contracts, which may or may not be related to debt issuances. The investment of these funds is governed by the policies set forth in the individual indenture and trustee agreements. Certain component units of the City also participate in LAIF separately from the pool.

All City investments are reported at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools* and GASB Statement No. 72, *Fair Value Measurement and Application.* Note 3 contains additional information on permissible investments per the City Treasurer's Investment Policy and other policies applicable to the cash and investments reported herein.

The discharge of fiduciary duties by SDCERS' Board is governed by Section 144 of the City Charter and Article XVI, Section 17 of the California State Constitution. SDCERS' Board has the authority to delegate investment management duties to outside advisors, to seek the advice of outside investment counsel, and to provide oversight and monitoring of the investment managers it hires. Additional discretion beyond the City Charter is provided for under the California State Constitution and other relevant authorities whereby the Board may, at its discretion, invest funds in any form or type of investment, financial instrument, or financial transaction. SDCERS' investment managers manage all investments, which are held in SDCERS' name.

SDCERS' investments are reported at fair value or net asset value (NAV), in accordance with GASB Statement No. 72, in the accompanying Statement of Fiduciary Net Position. SDCERS' custodial bank, State Street Bank & Trust Company, provides the fair values of exchange traded assets. Through its agents, SDCERS also holds investments in non-publicly traded institutional investment funds. These institutional investment funds are comprised of exchange traded securities, the fair values of which are provided by the respective investment managers. Directly-owned real estate assets are stated at appraised values as determined by SDCERS' real estate managers and third party appraisal firms. Private equity and infrastructure assets are measured at fair value using the NAV per share or its equivalent by their respective investment managers, giving consideration to the financial

condition and operating results of the portfolio companies, and other factors deemed relevant. These values are reviewed by SDCERS' investment staff and their real estate, private equity and infrastructure consultants. Where fair value information as of June 30, 2018 was not available at the time of these financial statements, SDCERS has estimated fair value by using the most recent fair value information available from the fund manager/general partner and adding any contributions and/or deducting any distributions to/from the investment from the date of the most recent fair value information to June 30, 2018.

f. Receivables

The City's receivables are comprised mainly of notes, loans, accounts and taxes. Long-term notes and loans receivables consist primarily of former RDA agreements with terms that provide for limited cash flows, e.g. residual receipts from Low and Moderate Housing developer loans. These receivables are reported in the governmental fund statements and are recorded with an offset to restricted fund balance as resources are not available for expenditure. Accounts receivable and taxes receivable are reported net of an allowance for uncollectible amounts. The allowance amounts as of June 30, 2018 are as follows:

Fund	Accounts Receivable Allowance	Taxes Receivable Allowance
General Fund	$ 7,951	$ 2,130
Nonmajor Governmental Funds	3,453	46
Sewer Utility	951	—
Water Utility	1,014	—
Nonmajor Enterprise Funds	2,843	—
Internal Service Funds	1,047	—
Total	$ 17,259	$ 2,176

g. Inventories

Inventories reported in the government-wide financial statements and the proprietary funds financial statements, which consist primarily of water in storage intended for resale, are valued at the lower of cost or market. Such inventories are expensed when consumed using primarily the first-in, first-out (FIFO) and weighted-average methods for inventories of water in storage and supplies, respectively. Inventory supplies of governmental funds are recorded as expenditures when purchased.

h. Land Held for Resale

Land Held for Resale is reported in the government-wide and fund financial statements at the lower of cost or net realizable value. In the governmental funds financial statements, fund balances associated with properties held for resale are reported as restricted fund balances as proceeds from the sale of such properties are restricted for the purpose of affordable housing as codified in the California Health and Safety Code. Land is originally recorded at historical cost and adjusted to net realizable value when a property is impaired, when the determination is made that a property will be sold for less than its cost, or when property values decrease due to market conditions.

i. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents the consumption of net position that is applicable to a future reporting period(s) and so will not be recognized as an expense/expenditure until then. The City has three items that qualify for reporting in this category:

loss on refunding, deferred outflows related to pension benefits, and deferred outflows related to other postemployment benefits.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents the acquisition of net position that is applicable to a future reporting period(s) and so will not be recognized as a revenue until then. The City has three items that qualify for reporting in this category: gain on refunding, deferred inflows related to pension benefits, and deferred inflows related to other postemployment benefits. Additionally, in the governmental funds financial statements, deferred inflows of resources represent revenues which have been earned but have not met the recognition criteria based on the modified accrual basis of accounting.

j. Capital Assets

Capital assets, when purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at acquisition value or estimated acquisition value on the date received. Costs for routine maintenance are expensed as incurred. All capital assets are reported in the applicable Governmental or Business-Type Activities column in the government-wide financial statements, as well as in the proprietary funds and fiduciary funds financial statements.

Non-Depreciable Capital Assets include land, rights of way, easements, and construction in progress. Works of art and historical treasures are also included since they are capitalized, but not depreciated. These assets are maintained for public exhibition, education, or research and are being preserved for future generations. The proceeds from sales of works of art are used to purchase other items for the collection.

Depreciable Capital Assets, which include structures and improvements, equipment, intangible assets, distribution and collection systems, and infrastructure, are reported net of accumulated depreciation/amortization. The City considers capital expenditures those that result in assets that are used in City operations and have a useful life in excess of one year. The following table shows the City's capitalization thresholds for each asset category:

Asset Category	Capitalization Threshold
Non-Depreciable:	
Land and Rights of Way	$ —
Easements (Intangible)	50
Artwork/Historical Treasures	5
Depreciable:	
Buildings	50
Building Improvements	50
Equipment/Vehicles	5
Software (Intangible)	100
Distribution and Collection Systems	25
Infrastructure	25

Interest expense incurred during the construction phase for business-type capital assets is reflected in the capitalized value of the asset constructed. During fiscal year 2018, $6,278 of interest expense incurred was capitalized, which is calculated net of related interest revenue of $10.

Depreciation/amortization of capital assets is computed using the straight-line method over the estimated useful life of the asset as follows:

Asset Category	Useful Life (In Years)
Structures and Improvements	
Buildings	10 - 50
Building Improvements	3 - 50
Equipment	
Vehicles	4 - 20
General Machinery and Office Equipment	2 - 50
Intangible Assets	5 - 25
Distribution and Collection	
Systems Sewer and Water Infrastructure	15 - 75
Dams and Reservoirs	50 - 150
Infrastructure	
Pavement, Sidewalks, and Lighting	12 - 50
Bridges	30 - 75
Flood Control Assets	40 - 75

k. Unearned Revenue

In the government-wide and fund level financial statements, unearned revenue represents amounts received, which have not been earned. Examples include Development Services customer accounts with surplus balances, and grant revenues received in advance.

l. Interfund Transactions

The City has the following types of interfund transactions:

Loans represent amounts provided with a requirement for repayment. Interfund loans are normally reported as interfund receivables (i.e. Due from Other Funds) in lender funds and interfund payables (i.e. Due to Other Funds) in borrower funds. The non-current portions of long-term interfund loans receivable are reported as advances.

Services provided and used represent sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds.

Reimbursements represent repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. The reimbursement is reported as expenditures or expenses in the reimbursing fund and a reduction of expenditures or expenses in the fund that initially incurred the expense.

Transfers represent flows of assets, such as cash or goods, without equivalent flows of assets in return, and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

m. Long-Term Liabilities

In the government-wide, proprietary, and fiduciary funds financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable Statements of Net Position. Capital appreciation bond accretion and bond premiums and discounts are amortized over the life of the bonds using a method which approximates the effective interest method. Net bonds payable reflects unamortized bond discounts and premiums.

n. Compensated Absences

The City provides combined annual leave to cover both vacation and sick leave. It is the City's policy to permit employees to accumulate between 8.75 weeks and 17.5 weeks of earned but unused annual leave, depending on hire date. Accumulation of these earnings will be paid to employees upon separation from service.

The liability for compensated absences reported in the government-wide and proprietary funds financial statements consists of unpaid accumulated vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g. Medicare Tax). The short-term portion is an estimate calculated based on leave taken in the prior year, as a percentage of total outstanding balances. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

o. Claims and Judgments

The costs of claims and judgments are accrued when incurred and measurable in the government-wide, proprietary and fiduciary funds financial statements. In governmental funds, the costs of claims and judgments are recorded as expenditures when payments are due and payable.

p. Non-Monetary Transactions

The City, as part of approving new development in the community planning process, requires that certain public facilities be constructed per the provisions of community financing plans. These facilities are typically funded in whole or part with impact fees collected from new development. The City often enters into reimbursement agreements with developers to construct the facilities. These agreements provide developers with credits (also referred to as FBA/DIF/RTCIP credits) for future permit fees. These credits are earned by the developer upon successful completion of construction phases and when City engineers have accepted the work. The credits are recognized as permit revenue upon issuance and a corresponding capital asset is recorded in the government-wide financial statements. See Note 5 for additional detail on reimbursement agreements.

q. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's SDCERS plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by SDCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value or NAV.

r. Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value or NAV.

s. Net Position

In the government-wide and proprietary funds financial statements, Net Position is categorized as follows:

- **Net Investment in Capital Assets** consists of capital assets, net of accumulated depreciation, reduced by outstanding debt and deferred outflows/inflows of resources attributed to the acquisition, construction or improvement of these assets.

- **Restricted Net Position** consists of restricted assets reduced by liabilities related to those assets. It is the City's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position components are available. As of June 30, 2018, the amount of restricted net position due to enabling legislation was approximately $311,074.

- **Unrestricted Net Position** consists of net position that does not meet the definition of Net Investment in Capital Assets or Restricted Net Position.

t. Fund Balances

In the fund financial statements, governmental funds report fund balances as nonspendable, restricted, committed, assigned or unassigned based on the extent to which the City is bound to observe constraints imposed on the use of resources.

- **Nonspendable fund balance** - amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

- **Restricted fund balance** - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

- **Committed fund balance** - amounts that can only be used for specific purposes imposed by formal action of the City Council. The City Council uses ordinances or resolutions to commit fund balances. Ordinances and resolutions both meet the criteria to establish a commitment since the limitations on the redeployment of those resources for other purposes is the same. Committed amounts cannot be used for other purposes unless City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

- **Assigned fund balance** - amounts that are constrained by the City's intent to be used for specific purposes, but do not meet the criteria to be classified as restricted or committed. City Council may assign fund balance through approval of budget appropriations. The Mayor and his/her designees are authorized by the City Charter to assign fund balance through the encumbrance process. Designees generally include the Chief Operating Officer, Assistant Chief Operating Officer, Deputy Chief Operating Officers and Department Directors.

- **Unassigned fund balance** - the residual classification for the City's General Fund that includes amounts not included in other classifications. In funds other than the General Fund, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed or assigned to those purposes.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, followed by committed, assigned and unassigned as they are needed.

u. Reserves

The City's formal reserve policy, which was adopted in fiscal year 2008 via City Council ordinance, last amended in June 2018, was created in accordance with Charter Section 91 and defines the General Fund Reserve. The City's General Fund Reserve is comprised of two separate components: (1) the Emergency Reserve and (2) the Stability Reserve. For the purpose of the policy, the General Fund is the operational fund as presented in the City's annual budget document.

- **Emergency Reserve** - maintained for the purpose of sustaining General Fund operations in the case of a public emergency such as a natural disaster or other unforeseen catastrophic event. This reserve may be expended when an event is determined to be a public emergency by a two-thirds vote of the City Council, when such expenditures are necessary to ensure the safety of the City's residents and their property. This reserve is reported as restricted fund balance.

- **Stability Reserve** - maintained to mitigate financial and service delivery risk due to unexpected revenue shortfalls or unanticipated critical expenditures. The purpose of this reserve is to provide budgetary stabilization and not serve as an alternative funding source for new programs. Recommendations to appropriate from the Stability Reserve are brought forward by the Mayor and require approval by a majority of the City Council. This reserve is a component of unassigned fund balance.

The policy level for total General Fund Reserves is 16.7% of the most recent three year average of annual General Fund operating revenues (budgetary basis), as reported in the CAFR. The Emergency Reserve is set at a policy level of 8%, and the Stability Reserve is set at a policy level of 8.7%. The City's reserve policy established funding targets for each fiscal year ending 2016 to 2025 to reach policy levels. For fiscal year 2018, the Emergency Reserve funding target was 8%, and the Stability Reserve funding target was 7%. The balances of the Emergency Reserve and the Stability Reserve, as of June 30, 2018, were $96,700 and $84,600, respectively, meeting policy target levels. In the event either reserve component is reduced below the amount established by this policy, the Mayor will develop a plan to replenish the reserve in a reasonable timeframe. Spendable and unassigned fund balance that is not part of General Fund Reserves is available for appropriation.

The Pension Payment Stabilization Reserve was established to mitigate service delivery risk due to increases in the annual pension payment, the Actuarially Determined Contribution (ADC). The purpose of this reserve is to provide a source of funding for the ADC when these conditions occur and the ADC has increased year over year. The Pension Payment Stabilization Reserve is funded at a level equal to 8% of the average of the last three ADCs to the pension system. The fiscal year 2018 adopted budget included full utilization of the reserve in order to minimize the impact of the significant increase in the July 1, 2017 ADC payment of $324,500.

The City also maintains reserves to manage risk including public liability reserves for the payment of claims and judgments, a reserve for obligations related to workers' compensation claims, and a reserve for long-term disability payments for City employees. In addition, the City maintains reserves for the following enterprise funds: the Water and Sewer Utility Funds; Development Services Fund; Environmental Services Fund; and the Golf Course Fund. Information regarding reserves maintained by the City is contained in Council Policy No. 100-20.

v. Participating Agencies Revenue Recognition

The Regional Wastewater Disposal Agreement between the City and the Participating Agencies (PA) in the Metropolitan Sewerage System allows for quarterly invoicing of local area member municipalities and utility districts to collect and process sewage waste using the City's facilities. The invoicing is based on an estimated allocation of costs associated with each PA and may not represent each PA's proportionate allocation of actual maintenance and operating costs of the sewage system, resulting in an overstatement or understatement of revenue reported in the Sewer Utility Statement of Revenues, Expenses and Changes in Fund Net Position.

w. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

x. New Governmental Accounting Standards Implemented During Year Ended June 30, 2018

The requirements of the following accounting standards are effective for the purpose of implementation, if applicable to the City, for the year ended June 30, 2018.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), which applies to state and local government employers who provide OPEB to employees, such as the City. GASB 75 replaces previously issued statements related to the employer's accounting and financial reporting for OPEB. GASB 75 details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet specific criteria, and for employers whose employees are provided with defined contribution OPEB. For OPEB that is administered through trusts, GASB 75 requires the liability of employers to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. See Note 13 for more information regarding the City's Other Postemployment Benefits.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017.* This statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The City had no reportable impacts for fiscal year 2018.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues.* The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt-are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The City had no reportable impacts for fiscal year 2018.

y. Upcoming Governmental Accounting Standards Implementation

The requirements of the following accounting standards become effective in future periods, if applicable to the City. Management is currently in the process of evaluating the potential impacts to the City's basic financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. It also establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This statement will become effective in fiscal year 2019.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This statement will become effective in fiscal year 2020.

In June 2017, GASB issued Statement No. 87, *Leases*. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use the lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will become effective in fiscal year 2021.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement requires that additional essential information related to debt be disclosed in the notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specific in debt agreements related to significant events of default with finance-related consequences, significant termination events of finance-related consequences, and significant acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. This statement will become effective in fiscal year 2019.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this statement. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement will become effective in fiscal year 2021.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61.* The primary objectives of this statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government entity engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those government entities and funds should measure the majority equity interest at fair value. This statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. This statement will become effective in fiscal year 2020.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Dollars in Thousands)

Certain adjustments are necessary to reconcile governmental funds to governmental activities (which includes all internal service funds). The reconciliation of these adjustments is as follows:

a. Explanation of certain differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position:

The Governmental Funds Balance Sheet includes a reconciliation between "Total Fund Balances" and "Net Position of Governmental Activities" as reported in the Government-Wide Statement of Net Position. One element of the reconciliation states, "Certain assets and deferred outflows of resources are not financial resources (uses), and therefore, are not reported at the fund level." The details of this $653,012 difference are as follows:

Loss on Refunding, July 1, 2017	$ 2,755
Loss on Refunding for Bonds Issued	13,608
Amortization Expense	(1,238)
Loss on Refunding, June 30, 2018	15,125
Deferred Outflows of Resources Related to Other Postemployment Benefits	22,864
Deferred Outflows of Resources Related to Pensions	615,023
Net adjustment to increase "Total Fund Balances" of Governmental Funds to arrive at "Total Net Position" of Governmental Activities	$ 653,012

Another element of the reconciliation states: "Unavailable revenues are not financial resources, and therefore, are reported as deferred inflows of resources." The details of this $93,068 difference are as follows:

Deferred Inflows of Resources - Unavailable Revenue:	
Taxes Receivable	$ 54,995
Grants Receivable	19,440
Special Assessments Receivable	121
Revenue from Other Agencies	4,718
Charges for Services	9,663
Other	4,131
Net adjustment to increase "Total Fund Balances" of Governmental Funds to arrive at "Total Net Position" of Governmental Activities	$ 93,068

Another element of the reconciliation states: “Certain liabilities and deferred inflows of resources, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the funds.” The details of this $(3,763,526) difference are as follows:

Interest Accrued on Long-Term Debt	$ (4,706)
Compensated Absences	(58,580)
Liability Claims	(367,366)
Reimbursement Agreement Obligations	(6,749)
Capital Lease Obligations	(161,564)
QECB Lease Obligation	(7,578)
Loans Payable	(3,511)
Section 108 Loans Payable	(2,872)
Net Bonds Payable	(672,703)
Net Other Postemployment Benefits Liability	(407,105)
Pension Liabilities	(1,992,865)
Total Liabilities	(3,685,599)
Deferred Inflows of Resources:	
Deferred Inflows Related to Other Postemployment Benefits	(448)
Deferred Inflows Related to Pensions	(77,479)
Total Deferred Inflows of Resources	(77,927)
Net adjustment to decrease "Total Fund Balances" of Governmental Funds to arrive at "Total Net Position" of Governmental Activities	$ (3,763,526)

Another element of the reconciliation states: “Internal service funds are used by management to charge the costs of activities such as Fleet Operations, Central Stores, Publishing Services, and Employee Benefit Programs to individual funds. The assets, deferred outflows of resources, liabilities, and deferred inflows of resources of internal service funds are included in the governmental activities in the Statement of Net Position.” The details of this $160,720 difference are as follows:

Assets:	
Capital Assets - Non-Depreciable	$ 3,849
Capital Assets - Depreciable	142,619
Internal Balances	(227)
Current Assets	148,254
Total Assets	294,495
Deferred Outflows of Resources	18,056
Liabilities:	
Compensated Absences	(6,535)
Liability Claims	(9,227)
Capital Lease Obligations	(36,085)
Net Other Postemployment Benefits Liability	(20,376)
Pension Liabilities	(66,417)
Current Liabilities	(10,983)
Total Liabilities	(149,623)
Deferred Inflows of Resources	(2,208)
Net adjustment to increase "Total Fund Balances" of Governmental Funds to arrive at "Total Net Position" of Governmental Activities	$ 160,720

b. Explanation of certain differences between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities:

The Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances includes a reconciliation between “Net Change in Fund Balances of Governmental Funds” and “Change in Net Position of Governmental Activities” as reported in the Government-Wide Statement of Activities. One element of that reconciliation explains: “Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Donated assets are not financial resources, and therefore, are not reported in the funds.” The details of this $118,646 difference are as follows:

Capital Outlay	$ 253,249
Donated Capital Assets	7,785
Depreciation/Amortization Expense	(142,388)
Net adjustment to increase "Net Change in Fund Balances of Governmental Funds" to arrive at "Change in Net Position of Governmental Activities"	$ 118,646

Another element of the reconciliation states: “The net effect of various miscellaneous transactions involving capital assets (e.g., retirements and transfers) is to decrease net position.” The details of this $(8,121) are as follows:

In the Statement of Activities, only the net loss on the sale/retirement of capital assets is reported. However, in the governmental funds, the proceeds from the sale of capital assets increase financial resources. Thus, the change in net position differs from the change in fund balances by the net book value of the capital assets sold/retired.	$ (6,904)
Transfers of capital assets to business-type activities decrease net position on the Statement of Activities, but do not appear in the governmental funds because they are not financial uses.	(1,217)
Net adjustment to decrease "Net Change in Fund Balances of Governmental Funds" to arrive at "Change in Net Position of Governmental Activities"	$ (8,121)

Another element of the reconciliation states: “Internal service funds are used to charge the costs of activities such as Fleet Operations, Central Stores, Publishing Services, and Employee Benefit Programs to individual funds. The net income of certain internal service activities is reported with governmental activities.” The details of this $776 are as follows:

Allocated Operating Loss	$ (2,314)
Nonoperating Revenues:	
Gain on Sale/Retirement of Capital Assets	808
Other Agency Grant Assistance	656
Other Nonoperating Revenues, net	164
Capital Contributions	42
Capital Asset Transfers, net	1,178
Transfers, net	242
Net adjustment to increase "Net Change in Fund Balances of Governmental Funds" to arrive at "Change in Net Position of Governmental Activities"	$ 776

Another element of the reconciliation states: “The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.” The details of this $(21,171) difference are as follows:

Debt Issued or Incurred:		
Capital Lease Obligations	$	(31,827)
Lease Revenue Bonds		(129,320)
Tobacco Settlement Asset-Backed Bonds		(97,855)
Total Debt Issued or Incurred		(259,002)
Principal Repayments:		
Capital Lease Obligations		6,207
QECB Lease Obligations		851
Loans Payable		633
Section 108 Loans Payable		325
Lease Revenue Bonds		24,035
Tobacco Settlement Asset-Backed Bonds		8,910
Total Principal Repayments		40,961
Refundings:		
Lease Revenue Bonds		132,550
Tobacco Settlement Asset-Backed Bonds		64,320
Total Refundings		196,870
Net adjustment to decrease "Net Change in Fund Balances of Governmental Funds" to arrive at "Change in Net Position of Governmental Activities"	$	(21,171)

Another element of the reconciliation states: “Some expenses reported in the Statement of Activities do not require the use of current financial resources (e.g., compensated absences, net pension liability), and therefore, are not accrued as expenditures in governmental funds.” The details of this $(116,063) difference are as follows:

Compensated Absences	$	4,047
Liability Claims		(5,735)
Reimbursement Agreement Obligations		10,325
Net Other Postemployment Benefit Obligation and Related Deferred Outflows/Inflows of Resources		(665)
Pension Liabilities and Related Deferred Outflows/Inflows of Resources		(143,376)
Interest Accrued on Long-Term Debt		2,464
Current Year Premiums and Loss on Refunding Less Amortization of Bond Premiums, Discounts, and Loss on Refunding		16,877
Net adjustment to decrease "Net Change in Fund Balances of Governmental Funds" to arrive at "Change in Net Position of Governmental Activities"	$	(116,063)

3. CASH AND INVESTMENTS (Dollars in Thousands)

The following is a summary of the carrying amount of cash and investments as of June 30, 2018:

	Governmental Activities	Business-Type Activities	Fiduciary Funds other than SDCERS	Subtotal	SDCERS Fiduciary Fund	Grand Total
Cash or Equity in Pooled Cash and Investments	$ 1,568,849	$ 814,382	$ 121,457	$ 2,504,688	$ 1,573	$ 2,506,261
Cash and Investments with Custodian, Fiscal Agents, and Trustees	31,327	91,994	78,308	201,629	288,574	490,203
Investments at Fair Value	44,848	—	1,194,348	1,239,196	8,083,419	9,322,615
Securities Lending Collateral	—	—	—	—	171,321	171,321
Total	$ 1,645,024	$ 906,376	$ 1,394,113	$ 3,945,513	$ 8,544,887	$ 12,490,400

a. Cash or Equity in Pooled Cash and Investments

Cash or Equity in Pooled Cash and Investments represents petty cash and cash held with banks in demand deposit and/or savings accounts. Furthermore, it represents equity in pooled cash and investments, which is discussed in further detail below.

As provided for by California Government Code, the cash balances of substantially all funds and certain outside entities are pooled and invested by the City Treasurer for the purpose of increasing interest earnings through investment activities. The respective funds' shares of the total pooled cash and investments are included in the table above, under the caption Cash or Equity in Pooled Cash and Investments.

The following represents a summary of the items included in the Cash or Equity in Pooled Cash and Investments line item:

Cash on Hand - Petty Cash	$ 199
Deposits - Other Cash and Cash Equivalents	16,122
City Treasurer's Pooled Investments and Deposits	2,488,367
SDCERS Cash Deposits	1,573
Total Cash or Equity in Pooled Cash and Investments	$ 2,506,261

A summary of the investments held by the City Treasurer's Investment Pool as of June 30, 2018 is presented in the table below:

Investment	Fair Value	Book Value	Interest Rate % Range	Maturity Range
Agency Discount Notes	$ 104,446	$ 104,370	1.63-2.24% [1]	7/2/2018-4/24/2019
Agency Notes and Bonds	304,559	308,917	0.88-2.50%	6/21/2019-4/13/2021
Asset Backed Securities	383,240	385,982	1.14-2.67%	8/15/2019-1/20/2023
Commercial Paper	548,001	545,036	1.63-2.44%	7/2/2018-12/28/2018
Medium Term Notes and Bonds	481,391	486,521	1.20-3.15%	2/22/2019-6/23/2021
State Local Agency Investment Fund (LAIF) [2]	61,062	61,176	1.51%	1/9/2019
Supranationals	223,175	224,586	1.00-2.13%	7/2/2018-11/9/2020
U.S. Treasury Obligations - Bills	19,997	19,914	1.69%	7/5/2018
U.S. Treasury Obligations - Notes	379,647	384,911	0.75-2.13%	6/15/2019-1/31/2022
Total	$ 2,505,518	$ 2,521,413		

[1] Discount Rates

[2] LAIF - The State Treasurer's pooled investment program values participants' shares based on amortized cost. This has been adjusted to fair value using the LAIF Factor. Maturity range is based on weighted average maturity of 193 days.

b. Cash and Investments with Custodian, Fiscal Agents, and Trustees

Cash and Investments with Custodian, Fiscal Agents, and Trustees include cash and investments held by trustees resulting from bond issuances. These funds represent bond funds, including but not limited to debt service reserve funds, construction funds, costs of issuance funds, and liquid investments held by trustees as legally required by bond issuances. In the Fiduciary Statement of Net Position, Cash with Custodian/Fiscal Agent includes construction contract retention deposits held in escrow accounts and the City's balance for the Preservation of Benefits Plan (POB Plan). The POB Plan is a qualified governmental excess benefit arrangement (QEBA) under Internal Revenue Code (IRC) section 415(m) and is discussed in further detail in Note 12. Additionally, Cash with Custodian/Fiscal Agent includes SDCERS' transaction settlements, held in each investment manager's portfolio, which are invested overnight by SDCERS' custodial bank. Furthermore, it represents the SDCERS portion of funds held as cash collateral for SDCERS' cash overlay program.

c. Investments at Fair Value

Investments at Fair Value represents investments of SDCERS, the Supplemental Pension Savings Plan, 401(a) Plan, 401(k) Plan, investments managed by the City Treasurer (which are not part of the City Treasurer's Investment Pool) and investments managed by the Funds Commission. Investments under the management of the Funds Commission are reported in the Permanent funds (Cemetery Perpetuity Fund, Los Penasquitos Canyon Preserve Fund, and Effie Sergeant Library Fund) and in the Other Special Revenue-Unbudgeted funds (Edwin A. Benjamin Fund, Jane Cameron Estate, and Gladys Edna Peters Fund).

d. Investment Policy

In accordance with City Charter Section 45, the City Treasurer is responsible for the safekeeping and investment of the unexpended cash in the City Treasury. The City Treasurer is also responsible for maintaining the City of San Diego City Treasurer's Investment Policy (Investment Policy), which is presented to City Council annually. This Investment Policy applies to all of the investment activities of the City except for the pension trust funds, the proceeds of certain debt issues (which are managed and invested at the direction of the City Treasurer in accordance with the applicable indenture or by Trustees appointed under indenture agreements or by fiscal agents), and the assets of funds placed in the custody of the Funds Commission by Council ordinance.

City staff reviews the Investment Policy annually and may make revisions based upon changes to the California Government Code and the investment environment. These suggested revisions are presented to the City Treasurer's Investment Advisory Committee (IAC) for review and comment. The IAC consists of two City representatives and three outside financial professionals with market and portfolio expertise not working for the City. The City Council reviews the Investment Policy and considers acceptance on an annual basis.

The Investment Policy is governed by the California Government Code (CGC), § 53600 et seq. The following table presents the authorized investments, requirements, and restrictions per the CGC and the Investment Policy:

	Maximum Maturity [1]		Maximum % of Portfolio		Maximum % with One Issuer		Minimum Rating [9]	
Investment Type	CGC	City Policy	CGC	City Policy	CGC	City Policy	CGC	City Policy
U.S. Treasury Obligations (bills, bonds, or notes)	5 years	5 years	None	None	None	None	None	None
U.S. Agencies	5 years	5 years	None	(2)	None	(2)	None	None
Supranationals [5]	5 years	5 years	30%	30%	30%	10%	AA	AA
Bankers' Acceptances [6]	180 days	180 days	40%	40%	30%	10%	None	(3)
Commercial Paper [6]	270 days	270 days	25%	25%	10%	10%	P-1	P-1
Negotiable Certificates of Deposit [6]	5 years	5 years	30%	30%	None	10%	None	(3)
Repurchase Agreements	1 year	1 year	None	None	None	None	None	None
Reverse Repurchase Agreements [4]	92 days	92 days	20%	20%	None	None	None	None
Local Agency Investment Fund	N/A	N/A	None	None	None	None	None	None
Non-Negotiable Time Deposits [6, 7]	5 years	5 years	None	25%	None	10%	None	(3)
Medium Term Notes/Bonds [6]	5 years	5 years	30%	30%	None	10%	A	A
Municipal Securities of California Local Agencies [6]	5 years	5 years	None	20%	None	10%	None	A
Mutual Funds	N/A	N/A	20%	20%	10%	5%	AAA	AAA
Notes, Bonds, or Other Obligations	5 years	5 years	None	None	None	None	None	AA
Mortgage and Asset-Backed Securities	5 years	5 years	20%	20%	None	None	AA	AAA
Financial Futures [8]	N/A	None	N/A	None	N/A	None	N/A	None

[1] In the absence of a specified maximum, the maximum is 5 years.

[2] No more than one-third of the cost value of the total portfolio at time of purchase can be invested in the unsecured debt of any one agency.

[3] Credit and maturity criteria must be in accordance with Section XII of the City's Investment Policy.

[4] Maximum % of portfolio for Reverse Repurchase Agreements is 20% of base value.

[5] International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.

[6] Investment types with a 10% maximum with one issuer are further restricted per the City's Investment Policy: 5% per issuer and an additional 5% with authorization by the City Treasurer.

[7] Time deposits with the Certificate of Deposit Account Registry Service (CDARS) are further restricted per the City's Investment Policy: 1 year maximum maturity and 2% maximum of the portfolio.

[8] Financial futures transactions would be purchased only to hedge against changes in market conditions for the reinvestment of bond proceeds.

[9] Minimum credit rating categories include modifications (+/-).

In the event a discrepancy exists between the CGC and City Policy, the more restrictive parameters will take precedence. Percentage holding limits listed in the table apply at the time the security is purchased.

According to the Investment Policy, the City may enter into repurchase and reverse repurchase agreements only with primary dealers of the Federal Reserve Bank of New York with which the City has entered into a master repurchase agreement.

Additionally, the Investment Policy authorizes investment in other specific types of securities. The City may invest in floating rate notes with coupon resets based upon a single fixed income index (which would be representative of an eligible investment), provided that security is not leveraged or has a coupon that resets inversely to the underlying index. Structured notes issued by U.S. Government agencies that contain imbedded calls or options are authorized as long as those securities are not inverse floaters, range notes, or interest only strips derived from a pool of mortgages. A maximum of 8% of the “cost value” of the pooled portfolio may be invested in structured notes.

Ineligible investments prohibited from use in the portfolio include, but are not limited to, common stocks and long-term corporate notes/bonds. The Investment Policy is available online at the following website address: www.sandiego.gov/treasurer/investments/invpolicy.shtml.

Other Investment Policies

The City currently has a Funds Commission whose role is to supervise and control all trust, perpetuity, and investment funds of the City and such pension funds as shall be placed in its custody. The statutory authority for the Funds Commission is created in City Charter Article V, Section 41(a). While the duties described in the creation document form broad authority for the Funds Commission, in practice, the Funds Commission only oversees investments related to a small number of permanent endowments. The allowable investments for these funds are different than those as prescribed in the City of San Diego City Treasurer's Investment Policy. Each permanent endowment fund has its own separate investment policy.

The City and its component units have funds invested in accordance with various bond indenture and trustee agreements. The investment of these bond issuances is in accordance with the Permitted Investments section and applicable account restrictions outlined in the Indenture of each bond issuance. The Permitted Investments section in each Indenture will vary based upon the maturity, cash flow demands, and reserve requirements associated with each issuance. In general, the Permitted Investments section of each Indenture will closely resemble the Investment Policy, but may include certain investment options not authorized by applicable law for the Investment Policy (CGC § 53601).

e. Fair Value Hierarchy

The City categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by the City's custodian banks. The City does not value any of its investments using Level 3 inputs.

The table below represents the City's fair value hierarchy as of June 30, 2018:

Investment Type	Fair Value	Level 1	Level 2
Asset Backed Securities	$ 383,240	$ —	$ 383,240
Commercial Paper	587,808	—	587,808
Exchange Traded Funds	4,712	4,712	—
Government Mortgage Backed Securities	6	—	6
Medium Term Notes and Bonds	483,440	—	483,440
Mutual Funds	1,205,521	—	1,205,521
Negotiable Certificates of Deposit	1,300	—	1,300
Stocks	3,206	3,206	—
Supranationals	223,175	—	223,175
U.S. Agencies	419,360	—	419,360
U.S. Treasury Obligations - Bills, Bonds and Notes	470,469	—	470,469
Total Investments & Cash Equivalents by Fair Value Level	$ 3,782,237	$ 7,918	$ 3,774,319

Asset backed securities, commercial paper, government mortgage backed securities, medium term notes and bonds, mutual funds, negotiable certificates of deposit, supranationals, investments in U.S. Agencies, and U.S. Treasury bills, bonds and notes are all classified in Level 2 of the fair value hierarchy. These investments are valued using either bid evaluation or matrix pricing techniques. Bid evaluation may include market quotations, yields, maturities, call features, and ratings. Matrix pricing is used to value the securities based on the securities' relationship to benchmark quoted prices which are maintained by various pricing vendors.

Investments in guaranteed investment contracts are valued at cost and exempt from the fair value hierarchy. Investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) are not classified in the fair value hierarchy. The City values investments in money market mutual funds and repurchase agreements at NAV based on amortized cost. The City also has investments in LAIF which are reported based upon the application of a fair value factor to each one dollar share invested, and therefore are not included in the fair value hierarchy.

City of San Diego - Disclosures for Specific Risks

f. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk for the City Treasurer's Investment Pool is intended to be mitigated by establishing two portfolios: a liquidity portfolio and a core portfolio. Target durations are based upon the expected short and long-term cash needs of the City. The liquidity portfolio is structured with an adequate mix of highly liquid securities and maturities to meet major cash outflow requirements for at least six months (per CGC § 53646). The liquidity portfolio uses the Bank of America Merrill Lynch 3-6 month Treasury Index as a benchmark with a target duration of plus or minus 40% of benchmark.

The core portfolio uses the Bank of America Merrill Lynch 1-3 year Treasury Index as a benchmark with a target duration of plus or minus 20% of the benchmark. It consists of high quality liquid securities with a maximum maturity of 5 years and is structured to meet the longer-term cash needs of the City. Information about the sensitivity of the fair value of the City's investments to market interest rate fluctuations is presented in the table on the following page.

As of June 30, 2018, the City's investments (dollars in thousands) by maturity are as follows:

	Years				
	Under 1	1-3	3-5	Over 5	Fair Value (In Thousands)
City Treasurer's Investment Pool:					
Asset Backed Securities	$ —	$ 112,416	$ 270,824	$ —	$ 383,240
Commercial Paper	548,001	—	—	—	548,001
Medium Term Notes and Bonds	72,727	408,664	—	—	481,391
State Local Agency Investment Fund	61,062	—	—	—	61,062
Supranationals - IADB [1]	24,676	24,664	—	—	49,340
Supranationals - IBRD [2]	124,709	49,126	—	—	173,835
U.S. Agencies - Federal Farm Credit Bank	20,000	—	—	—	20,000
U.S. Agencies - Federal Home Loan Bank	109,142	73,580	—	—	182,722
U.S. Agencies - Federal Home Loan Mortgage	—	83,524	—	—	83,524
U.S. Agencies - Federal National Mortgage	—	122,759	—	—	122,759
U.S. Treasury Obligations - Bills and Notes	44,648	257,729	97,267	—	399,644
	1,004,965	1,132,462	368,091	—	2,505,518
Non-Pooled Investments with City Treasurer:					
Commercial Paper	9,110	—	—	—	9,110
U.S. Treasury Obligations - Notes	—	13,487	—	—	13,487
	9,110	13,487	—	—	22,597
Investments with Fiscal Agents/Trustees, Funds Commission, and Blended Component Units:					
Commercial Paper	30,697	—	—	—	30,697
Exchange Traded Funds - Equity [3]	1,412	—	—	—	1,412
Exchange Traded Funds - Fixed Income	—	—	987	2,313	3,300
Government Mortgage Backed Securities	—	—	—	6	6
Guaranteed Investment Contracts	—	—	—	9,223	9,223
Medium Term Notes and Bonds	—	764	506	779	2,049
Money Market Mutual Funds	68,312	—	—	—	68,312
Mutual Funds - Equity [3]	807,332	—	—	—	807,332
Mutual Funds - Fixed Income	—	382,637	568	14,984	398,189
Negotiable Certificates of Deposit	1,300	—	—	—	1,300
Repurchase Agreement	1,200	—	—	—	1,200
Stocks - Common Stock [3]	2,854	—	—	—	2,854
Stocks - Preferred Stock [3]	352	—	—	—	352
U.S. Agencies - Federal Home Loan Bank	10,355	—	—	—	10,355
U.S. Treasury Obligations - Bonds and Notes	49,609	7,305	233	191	57,338
	973,423	390,706	2,294	27,496	1,393,919
Total Investments	$ 1,987,498	$ 1,536,655	$ 370,385	$ 27,496	$ 3,922,034
Cash on Hand - Petty Cash					$ 199
Deposits - Other Cash and Cash Equivalents and Cash with Fiscal Agents/Trustees					9,734
Deposits - Cash with Fiscal Agents/Trustees Held in Escrow Accounts					13,546
Total Investments, Cash on Hand, and Deposits					$ 3,945,513

[1] Inter-American Development Bank.

[2] International Bank for Reconstruction and Development.

[3] Equity exchange traded funds, equity mutual funds, and stocks do not have maturities.

g. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill their obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The City mitigates credit risk through its Investment Policy. Section d. outlines the authorized investments, requirements, and restrictions per the City's Investment Policy. As of June 30, 2018, the City's investments and corresponding credit ratings are as follows:

	Moody's	S&P	Fair Value	Percentage
City Treasurer's Investment Pool:				
Asset Backed Securities	Aaa	Not Rated	$ 205,416	8.20%
Asset Backed Securities	Not Rated	AAA	177,824	7.10%
Commercial Paper	P-1	Not Provided	548,001	21.87%
Medium Term Notes and Bonds	Aaa	Not Provided	25,017	1.00%
Medium Term Notes and Bonds	Aa1	Not Provided	35,306	1.41%
Medium Term Notes and Bonds	Aa2	Not Provided	24,947	1.00%
Medium Term Notes and Bonds	Aa3	Not Provided	40,525	1.62%
Medium Term Notes and Bonds	A1	Not Provided	170,799	6.82%
Medium Term Notes and Bonds	A2	Not Provided	128,857	5.14%
Medium Term Notes and Bonds	A3	Not Provided	55,940	2.23%
State Local Agency Investment Fund	Not Rated	Not Rated	61,062	2.44%
Supranationals - IADB [2]	Aaa	Not Provided	49,340	1.97%
Supranationals - IBRD [3]	Aaa	Not Provided	49,126	1.96%
Supranationals - IBRD [3]	P-1	Not Provided	124,709	4.98%
U.S. Agencies - Federal Farm Credit Bank	P-1	Not Provided	20,000	0.80%
U.S. Agencies - Federal Home Loan Bank [1]	P-1	Not Provided	84,446	3.37%
U.S. Agencies - Federal Home Loan Bank [1]	Aaa	Not Provided	98,276	3.92%
U.S. Agencies - Federal Home Loan Mortgage Corporation	Aaa	Not Provided	83,524	3.33%
U.S. Agencies - Federal National Mortgage Association	Aaa	Not Provided	122,759	4.90%
U.S. Treasury Obligations - Bills and Notes	Exempt	Exempt	399,644	15.94%
			2,505,518	100.00%
Non-Pooled Investments with City Treasurer:				
Commercial Paper [1]	P-1	Not Provided	9,110	40.32%
U.S. Treasury Obligations - Notes	Exempt	Exempt	13,487	59.68%
			22,597	100.00%

	Moody's	S&P	Fair Value	Percentage
Investments with Fiscal Agents/Trustees, Funds Commission, and Blended Component Units:				
Commercial Paper	P-1	Not Provided	$ 28,852	2.07%
Commercial Paper	Not Provided	A-1+	796	0.06%
Commercial Paper	Not Provided	A-1	1,049	0.08%
Exchange Traded Funds - Equity	Not Rated	Not Rated	1,412	0.10%
Exchange Traded Funds - Fixed Income	Not Rated	Not Rated	3,300	0.24%
Government Mortgage Backed Securities	Not Rated	Not Rated	6	0.01%
Guaranteed Investment Contracts	Not Rated	Not Rated	9,223	0.66%
Medium Term Notes and Bonds	Aa2	Not Provided	304	0.02%
Medium Term Notes and Bonds	Aa3	Not Provided	305	0.02%
Medium Term Notes and Bonds	A1	Not Provided	451	0.03%
Medium Term Notes and Bonds	A2	Not Provided	502	0.04%
Medium Term Notes and Bonds	A3	Not Provided	487	0.03%
Money Market Mutual Funds	Aaa	Not Provided	64,277	4.61%
Money Market Mutual Funds	Not Provided	AAA	1,651	0.12%
Money Market Mutual Funds	Not Rated	Not Rated	2,384	0.17%
Mutual Funds - Equity	Not Rated	Not Rated	807,332	57.91%
Mutual Funds - Fixed Income	Not Rated	Not Rated	398,189	28.56%
Negotiable Certificates of Deposit	Not Rated	A-1+	600	0.04%
Negotiable Certificates of Deposit	Not Rated	A-1	700	0.05%
Repurchase Agreement	Not Rated	AAA	1,200	0.09%
Stocks - Common Stock	Not Rated	Not Rated	2,854	0.20%
Stocks - Preferred Stock	Not Rated	Not Rated	352	0.03%
U.S. Agencies - Federal Home Loan Bank	Aaa	Not Provided	7,611	0.55%
U.S. Agencies - Federal Home Loan Bank	Not Provided	A-1+	2,744	0.20%
U.S. Treasury Obligations - Bonds and Notes	Exempt	Exempt	57,338	4.11%
			1,393,919	100.00%
Total Investments			$ 3,922,034	

"Exempt" - Per GASB Statement No. 40, U.S. Treasury Obligations do not require disclosure of credit quality.

[1] More than 5% of total investments are with Commercial Paper and U.S. Agencies whose debt is not backed by the full faith and credit of the U.S. Government.

[2] Inter-American Development Bank.

[3] International Bank for Reconstruction and Development.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the relative size of an investment in a single issuer. GASB Statement No. 40 requires disclosure of certain investments in any one issuer that represents 5% or more of total investments. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments are exempt. As of June 30, 2018, the City exceeded the 5% limit of total investments in Bayeriche Landesbank and J.P. Morgan Securities Commercial Paper and issuers of various U.S. Agencies. Investments exceeding the 5% limit are referenced in the credit ratings table above.

h. Custodial Credit Risk

Custodial credit risk is the risk that if a financial institution or counterparty fails, the City would not be able to recover the value of its deposits or investments. The City does not have a specific policy relating to custodial credit risk. The City's exposure to custodial credit risk is further discussed below.

Deposits

At June 30, 2018, the carrying amount of the City's cash on hand and deposits was approximately $9,933 and the bank balance was approximately $33,705; the difference is substantially due to outstanding checks. For the balance of cash deposits in financial institutions, approximately $1,755 was covered by federal depository insurance and approximately $31,950 was uninsured. Pursuant to the California Government Code, California banks and savings and loan associations are required to secure the City's deposits not covered by federal depository insurance by pledging government securities as collateral. As such, $31,950 of the City's deposits are pledged at 110% and held by a bank acting as the City's agent in the City's name.

The City also has deposits held in escrow accounts with a carrying amount and bank balance of approximately $13,546. For the balance of deposits in escrow accounts, approximately $2,656 was covered by federal depository insurance. The remaining balance of $10,890 was uninsured, but collateralized and pledged at 110%.

Investments

At June 30, 2018, all of the City's investments were held in the City's name and were not exposed to custodial credit risk.

i. Restricted Cash and Investments

Cash and investments at June 30, 2018 that are restricted by legal or contractual requirements are comprised of the following:

Governmental Funds	
General Fund	$ 6,087
Special Revenue	4,046
Debt Service	12,139
Capital Projects	48,507
Permanent Endowments	20,763
Total Governmental Funds	91,542
Sewer Utility Enterprise Fund	
Interest and Redemption Funds	69,772
Water Utility Enterprise Fund	
Customer Deposits	7,786
Interest and Redemption Funds	16,165
Total Water Utility Enterprise Fund	23,951
Nonmajor Enterprise Funds	
Airports Fund - Deposits and Advances	76
Development Services Fund - Deposits and Advances	7,975
Environmental Services Fund - Funds set aside for landfill site closure and maintenance costs	32,274
Recycling Fund - Customer deposits	11,551
San Diego Convention Center Corporation	3,211
Total Nonmajor Enterprise Funds	55,087
Private-Purpose Trust Fund	44,001
Miscellaneous Agency Funds	
Special Assessment Funds and Retention Held in Escrow Accounts	34,292
Total Restricted Cash and Investments	$ 318,645

Summary of Total Cash and Investments

Total Unrestricted Cash and Investments	$ 12,171,755
Total Restricted Cash and Investments	318,645
Total Cash and Investments	$ 12,490,400
Total Governmental Activities	$ 1,645,024
Total Business-Type Activities	906,376
Total Fiduciary Activities	9,939,000
Total Cash and Investments	$ 12,490,400

San Diego City Employees' Retirement System (SDCERS) - Disclosures for Policy and Specific Risks

Narratives and tables presented in the following sections (j. through u.) are taken directly from the comprehensive annual financial report of the San Diego City Employees' Retirement System as of June 30, 2018 (certain terms have been modified to conform to the City's CAFR presentation).

Summary of Cash and Investments - SDCERS

Cash on Deposit with Wells Fargo Bank	$	1,573
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents		288,574
Investments at Fair Value:		
Domestic Fixed Income Securities		2,043,704
International Fixed Income Securities		562,128
Domestic Equity Securities		1,798,974
International Equity Securities		1,302,229
Global Equity Securities		394,933
Real Estate		837,876
Private Equity and Infrastructure		1,143,575
Securities Lending Collateral		171,321
Total Cash and Investments for SDCERS	$	8,544,887

j. Investment Policy and Portfolio Risk

The Board of Administration of SDCERS (Board) has exclusive authority over the administration and investment of SDCERS' Trust Fund assets pursuant to Section 144 of the City Charter and the California State Constitution Article XVI, Section 17. The Board is authorized to invest in bonds, notes or other obligations, common stock, preferred stock, real estate investments, private equity, infrastructure and pooled vehicles. The risks and correlations of each asset class and investment manager are considered relative to an entire portfolio. Investment policies permit the Board to invest in financial futures contracts provided the contracts do not hedge SDCERS' Trust Fund portfolio. Financial futures contracts are recorded at fair value each day and must be settled at expiration date. Changes in the fair value of the contracts result in the recognition of a gain or loss.

Net investment income includes the net appreciation (depreciation) in the fair value of investments, interest income, dividend income, and other income not included in the appreciation (depreciation) in the fair value of investments, less total investment expenses, including investment management and custodial fees and all other significant investment-related costs. SDCERS' net realized gains totaled $260,500 for the year ended June 30, 2018. Realized gains and losses are independent of the calculation of net appreciation (depreciation) in the fair value of investments. Unrealized gains and losses on investments sold in the current year that had been held for more than one year were included in net appreciation (depreciation) in the fair value of the investments reported in the prior year and current year. Pursuant to the City, Port and Airport plan documents, realized gains and losses determine whether certain contingent benefits will be paid each fiscal year. Realized gains and losses are reported in the net appreciation (depreciation) in the fair value of investments in the financial statements.

SDCERS' Policy in regard to the allocation of invested assets is established and may be amended by the Board. The asset allocation policy is reviewed and approved on an annual basis. Through its investment objectives and policies, the Board emphasizes generating a rate of return above inflation and the preservation of capital. Investments are made only after the risk/reward trade-offs are evaluated. SDCERS' assets are managed on a total return basis, which takes into consideration both investment income and capital appreciation. While SDCERS recognizes the importance of preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns.

The following was SDCERS' adopted asset allocation policy as of June 30, 2018:

Asset Class	Target Allocation
Domestic Equity	18%
International Equity	15%
Global Equity	8%
Domestic Fixed Income	22%
Emerging Market Debt	5%
Real Estate	11%
Private Equity and Infrastructure	13%
Opportunity Fund	8%
Total	100%

For the fiscal year ended June 30, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 8.4%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

SDCERS' investment portfolio includes fixed income strategies to diversify the investment portfolio. The percentage allocated to these strategies is based on information derived from the Asset/Liability Study performed every three years. The returns of fixed income strategies vary less than equity returns. SDCERS' target asset allocation policy is reviewed each year. SDCERS' long-term target allocation to fixed income strategies as of June 30, 2018 was 27%, which includes domestic fixed income and emerging market debt. The fixed income allocation is externally managed and is comprised as follows: 22% to core domestic fixed income, which is benchmarked to the Barclays Capital Intermediate Aggregate Bond Index; and 5% to emerging market debt, which is benchmarked 40% to JP Morgan Emerging Market Bond Index Global Diversified and 60% to JP Morgan Government Bond Index-Emerging Market Global Diversified. A 2% target allocation to convertible bond securities, which is benchmarked to the Merrill Lynch All Convertibles All Qualities Index, is not included in the fixed income allocation, but instead is included in the domestic equity allocation. However, given that these convertible securities have fixed income attributes, the convertible bond allocation is included in the investment risk disclosures. SDCERS' overall portfolio diversification limits the fixed income invested in the debt security of any one issuer to 10% of the portfolio at the time of the initial commitment, except for U.S. Government obligations (or agencies and instruments of the U.S. Government) to minimize overall market and credit risk.

A copy of the SDCERS' investment policy and additional details on the results of SDCERS' investment activities are available at 401 West A Street, Suite 400, San Diego, CA 92101 or online at: https://www.sdcers.org/Investments/Overview/Policy.aspx.

k. Fair Value Hierarchy

SDCERS categorizes their fair value measurements within the fair value hierarchy established by GAAP set forth in GASB Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Level 1: Unadjusted quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.

Level 3: Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

Where inputs used to measure fair value fall into different fair value levels, fair value measurements are categorized based on the lowest level input that is significant to the valuation. SDCERS' assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. The table below shows the fair value leveling of the investments for the pension system.

Short-term securities generally include investments in money market-type securities reported at cost plus accrued interest.

The following table represents SDCERS' fair value hierarchy as of June 30, 2018:

Investments	Fair Value	Level 1	Level 2	Level 3
Short-Term Securities	$ (245)	$ —	$ (245)	$ —
Fixed Income Securities:				
Asset-Backed Securities	48,079	—	48,079	—
Commercial Mortgage-Backed Securities	20,310	—	20,310	—
Collateralized Mortgage Obligations	43,470	—	43,470	—
Corporates	473,047	—	473,047	—
Government & Agency Obligations	259,463	—	259,463	—
Mortgage-Backed Securities	363,084	—	363,084	—
Total Fixed Income Securities	1,207,453	—	1,207,453	—
Equity Securities:				
Consumer Discretionary	119,671	119,671	—	—
Consumer Staples	48,259	48,259	—	—
Energy	80,096	80,096	—	—
Financials	148,022	148,022	—	—
Healthcare	172,126	172,126	—	—
Industrials	64,700	64,700	—	—
Information Technology	137,210	137,210	—	—
Materials	22,248	22,248	—	—
Real Estate Investment Trust	11,010	11,010	—	—
Telecommunication Services	19,868	19,868	—	—
Utilities	14,066	14,066	—	—
Total Equity Securities	837,276	837,276	—	—
Real Estate	146,299	—	—	146,299
Investment Derivative Instruments				
Fixed Income Securities:				
Credit Default Swaps	192	—	192	—
Foreign Currency Forwards	1,153	—	1,153	—
Interest Rate Swaps	1,786	—	1,786	—
Options - Fixed Income	(90)	—	(90)	—
Options - Futures	(6)	—	(6)	—
Equity Securities:				
Rights	139	—	139	—
Total Investment Derivative Instruments	3,174	—	3,174	—
Total Investments by Fair Value Level [1]	$ 2,193,957	$ 837,276	$ 1,210,382	$ 146,299

[1] Total Investments measured at fair value plus total investment derivatives differs from the total investments including securities lending collateral on the Fiduciary Statement of Net Position because of investment receivables and payables unrealized gains and losses. Total investments at fair value excludes $64 of unrealized losses.

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Debt and fixed income derivative securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities based on the relationship of the securities to benchmark quoted prices. Index linked fixed income securities are valued by multiplying the external market price by the applicable day's Index Ratio. Level 2 fixed income securities have non-proprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market. Equity and equity derivative securities classified in Level 2 are securities whose values are derived daily from associated traded securities.

Real estate assets classified in Level 3 are real estate investments generally valued using the income approach or appraisal approach by SDCERS' real estate managers and third-party appraisal firms. SDCERS' policy is to obtain an external appraisal a minimum of every three years for properties or portfolios that the retirement system has some degree of control or discretion. Appraisals are performed by an independent appraiser with preference for Member Appraisal Institute (MAI) designated appraisers. The appraisals are performed using generally accepted valuation approaches applicable to the property type.

Investments Measured at NAV	NAV	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equity Investments:				
Commingled Domestic Equity Funds	$ 1,409,834	$ —	Daily	0-5 Days
Commingled International Equity Funds	1,057,339	—	Daily, Monthly	0-30 Days
Commingled Global Equity Funds	191,586	—	Daily	None
Total Equity Investments Measured at NAV	2,658,759	—		
Fixed Income Investments:				
Commingled Domestic Fixed Income Funds	833,911	—	Daily	None
Commingled International Fixed Income Funds	561,704	63,721	Daily	0-5 Days
Total Fixed Income Investments Measured at NAV	1,395,615	63,721		
Real Estate Investments:				
Real Estate Limited Partnerships	197,185	208,001	Not Eligible	N/A
Commingled Real Estate Funds	494,392	93,052	Monthly	None
Total Real Estate Investments Measured at NAV	691,577	301,053		
Private Equity & Infrastructure Investments:				
Commingled Private Equity & Infrastructure Funds	1,143,575	796,665	Not Eligible	N/A
Invested Securities Lending Collateral :				
Commingled Equity Securities	22,449	—	Daily	3 Days
Commingled Fixed Income Securities	148,872	—	Daily	3 Days
Total Invested Securities Lending Collateral Measured at NAV	171,321	—		
Total Investments Measured at NAV	$ 6,060,847	$ 1,161,439		

Investments that are measured at NAV are not classified in the fair value hierarchy but are disclosed in the table above.

Commingled Domestic Equity Funds consist of a large cap passive index fund, a large cap growth passive index fund, a small cap growth passive index fund, and a fund that invests in U.S. small cap value equities, and an options trading strategy blended with passive index fund. The Commingled International Equity Funds consist of broad international equity passive index funds with exposure to both developed and emerging markets, two funds that invest in emerging market equities, and two funds that invest in international small cap equities. The Commingled Global Equity Funds consist of two funds that invest in both international and U.S. equities. The fair values of the investments in these types have been determined using the NAV per share (or its equivalent).

The Commingled Domestic Fixed Income Funds consist of three funds that invest in domestic fixed income securities and one broad based domestic fixed income passive index fund. The Commingled International Fixed Income Funds consist of three emerging market debt funds and two funds that invest in global credit strategies. The fair values of the investments in these types have been determined using the NAV per share (or its equivalent).

The Commingled Real Estate Funds consist of seven open-ended commingled funds and 26 real estate limited partnerships that are invested in apartments, retail, industrial, and office assets throughout the United States, Europe and Asia. Although the open-ended commingled funds are private investments, they can be redeemed on a monthly basis, subject to available liquidity, and the fair value of these investments has been determined using the NAV per share (or its equivalent). Investments in the limited partnerships can never be redeemed with the funds. Instead, the nature of these investment funds is that distributions from each investment will be received as the underlying investments are liquidated. Because it is not probable that any individual investment will be sold, the fair value of SDCERS' ownership interest in partner's capital has been determined using the NAV per share (or its equivalent).

The Commingled Private Equity and Infrastructure Funds consist of two limited partnerships that are managed by two discretionary advisors. Generally, the limited partnerships invest in venture capital, growth equity, buyouts, special situations, mezzanine, and distressed debt. These investments are considered illiquid and cannot be redeemed during the lives of the partnerships. Instead, the nature of these investments is that distributions from each investment will be received as the underlying investments are liquidated. Because it is not probable that any individual investment will be sold, the fair value of SDCERS' ownership interest in partner's capital has been determined using the NAV per share (or its equivalent).

I. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Fixed income portfolios use duration to measure how a change in interest rates will affect the value of the portfolio. SDCERS does not have a general investment policy that addresses interest rate risk. Rather, each investment manager's specific investment guidelines place limits on each portfolio to manage interest rate risk.

Convertible bonds are generally less sensitive to changes in interest rates and more sensitive to the profitability of the underlying issuer. Company fundamentals are the overriding factor in the bond's return, while fluctuations in interest rates have significantly less impact.

The following table identifies the durations of SDCERS' domestic and international fixed income strategies based on portfolio holdings as of June 30, 2018:

Type of Security	Effective Duration (in years)	Fair Value [1]
Asset-Backed Securities	0.33	$ 48,079
Commercial Mortgage-Backed Securities	3.41	20,310
Collateralized Mortgage Obligations [2]	0.47	43,397
Corporate Bonds [3]		
Bank Loans	0.09	10,999
Corporate Bonds	2.21	268,407
Government and Agency Obligations [4]		
Municipal Securities	3.26	4,757
Foreign Securities	0.58	28,641
Treasury Securities	4.68	226,065
Mortgage-Backed Securities	5.15	363,084
Total		$ 1,013,739

[1] Fair Value does not include convertible bonds, mutual funds and derivative instruments of $1,592,093. These securities do not exhibit interest rate risk and/or duration cannot be calculated.

[2] Collateralized Mortgage Obligations do not include bonds of $73 as duration was not available for these

[3] Corporate Bonds do not include convertible securities of $193,641.

[4] Duration could not be calculated for the derivative instruments, short-term instruments and mutual funds of $1,398,379 within the Short-Term/Other category. Although the duration was not available for these securities, the weighted average maturity was calculated for the mutual funds.

The following table depicts the weighted average maturity for the commingled mutual funds:

Name of Institutional Mutual Fund	Fair Value	Weighted Average Maturity (in years)
BlackRock U.S. Debt NL Fund	$ 782,937	5.31
Davidson Kempner Special Opportunities Fund III [1]	35,027	—
Davidson Kempner Special Opportunities Fund IV [1]	4,575	—
GCM WindandSea Fund	154,739	1.90
Investec Emerging Market Debt	126,439	8.87
Metropolitan West Floating Rate	3,662	5.34
Metropolitan West High Yield Bond Fund	3,381	4.31
PIMCO PAPS Short-Term Floating NAV II Portfolio	43,932	0.02
Stone Harbor	128,956	10.27
Wellington Trust Company CIF II Opportunistic	111,967	11.00
Total	$ 1,395,615	

[1] This fund is early in its life cycle and the weighted average maturity is not applicable for the current underlying investments.

m. Investments Highly Sensitive to Interest Rate Changes

Certain terms in fixed income securities may increase the sensitivity of their fair values to changes in interest rates. The Portfolio Duration Analysis table on the previous page discloses the degree to which SDCERS' investments are sensitive to interest rate changes due simply to the remaining term to maturity. The total value of securities, as of June 30, 2018, that are highly sensitive to interest rate changes due to factors other than term to maturity are shown in the following table.

Type of Security	Fair Value	Percent of Fixed Income Portfolio
Adjustable Rate Notes	$ 6,537	0.2%
Asset-Backed Securities	10,276	0.4%
Floating Rate Notes	132,496	5.1%
Range Notes	1,920	0.1%
Total	$ 151,229	5.8%

Although SDCERS does not have an investment policy that pertains directly to investments that are highly sensitive to interest changes, this risk is mitigated by diversification of issuer, credit quality, maturity and security selection.

n. Credit Risk

Credit risk is the risk that an issuer or other underlying borrower to a debt instrument will not fulfill its obligations. Nationally recognized statistical rating organizations (NRSROs) assign ratings to measure credit risk. These rating agencies assess a firm's or government's willingness and ability to repay its debt obligations based on many factors.

SDCERS employs two core bond managers that invest primarily in U.S. fixed income and derivative securities, fixed income mutual funds, and some non-U.S. fixed income securities. SDCERS also invests in three emerging market debt commingled funds, one passive core fixed income index fund, and two opportunistic global credit funds. The investment management agreements between SDCERS and its two core bond managers contain specific investment guidelines that identify permitted fixed income investments. One of SDCERS' domestic core fixed income managers has limited tactical discretion to invest in non-U.S. fixed income securities.

The permitted securities and derivatives for the two domestic core fixed income managers include U.S. Government and agency obligations, collateralized mortgage obligations, U.S. corporate securities, commercial mortgage backed securities, asset backed securities, futures, forwards, options, interest rate swaps and credit default swaps. Investment guidelines include minimum average portfolio quality of AA- rating (fair value weighted) for SDCERS' domestic fixed income manager and minimum average portfolio quality of A+ for SDCERS' domestic fixed income manager with limited tactical discretion to invest in non-U.S. fixed income securities and a minimum credit quality at time of purchase of BBB- for the two domestic fixed income managers.

The permitted securities for SDCERS' domestic convertible bond portfolio include convertible bonds, convertible preferred stocks, common stocks (due to forced conversions) and synthetic convertibles. SDCERS' domestic convertible bond portfolio will generally maintain an average quality rating of at least B.

The following table identifies the credit quality of SDCERS' fixed income strategies based on portfolio holdings as of June 30, 2018.

S&P Quality Rating [4]	Total Fair Value	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Collateralized Mortgage Obligations	Corporates [1]	Government and Agency Obligations [2]	Mortgage-Backed Securities	Short-Term/ Other
U.S. Treasuries	$ 226,065	$ —	$ —	$ —	$ —	$ 226,065	$ —	$ —
GNMA Securities	34,961	—	—	—	—	—	34,961	—
AAA	43,248	20,943	6,580	68	15,657	—	—	—
AA+	340,238	7,810	—	3,308	997	—	328,123	—
AA	6,626	2,372	1,167	445	1,036	1,606	—	—
AA-	20,995	—	894	148	16,537	3,416	—	—
A+	28,768	984	—	1,448	24,842	1,494	—	—
A	40,938	1,313	—	2,135	37,490	—	—	—
A-	41,323	509	885	31	38,907	991	—	—
A-1+	982	982	—	—	—	—	—	—
BBB+	53,489	1,358	—	732	51,328	71	—	—
BBB	54,317	—	—	—	54,317	—	—	—
BBB-	32,187	—	—	—	32,187	—	—	—
BB+	8,559	—	—	—	8,559	—	—	—
BB	314	314	—	—	—	—	—	—
BB-	13,972	—	—	588	10,726	2,658	—	—
B+	9,184	—	—	—	7,568	1,616	—	—
B	2,203	—	—	—	2,203	—	—	—
B-	3,057	—	—	23	3,034	—	—	—
CCC+	6,746	—	—	—	6,746	—	—	—
CCC	1,937	—	—	—	1,937	—	—	—
NR [5]	1,635,723	11,494	10,784	34,544	158,976	21,546	—	1,398,379 [3]
Totals	$ 2,605,832	$ 48,079	$ 20,310	$ 43,470	$ 473,047	$ 259,463	$ 363,084	$ 1,398,379

[1] Corporate Bonds include convertible bonds from SDCERS' convertible bond manager.

[2] Includes international and municipal holdings.

[3] Includes fixed income commingled mutual fund investments of $1,395,615. These institutional quality fund investments are not directly rated by major credit rating agencies.

[4] Credit ratings with qualifiers and rating outlooks have been combined to show the credit rating as of June 30, 2018.

[5] NR represents those securities that are not rated by one of the NRSROs.

Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk.

o. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the relative size of an investment in a single issuer. As of June 30, 2018, SDCERS had no single issuer that exceeded 5% of total investments or that exceeded 5% of plan net position (excluding investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments). With respect to the concentration of credit risk by issuer, SDCERS' Investment Policy states that not more than 10% of the fixed income portfolio shall be invested in the debt security of any one issuer at the time of initial commitment, except for U.S. Government and Agency obligations. While SDCERS does not have a general investment policy on the concentration of credit risk by issuer, each manager's specific investment guidelines place limitations on the maximum holdings in any one issuer.

p. Custodial Credit Risk

Custodial credit risk is the risk that if a financial institution or counterparty fails, SDCERS would not be able to recover the value of its deposits, investments, or securities. SDCERS' exposure to custodial credit risk is further discussed in the following paragraphs.

Deposits

As of June 30, 2018 SDCERS' cash balance was $1,600. Cash and cash equivalents on deposit with custodial bank and fiscal agents was $288,600, which includes cash collateral for SDCERS' cash overlay program of $41,700 and residual cash held in each manager's portfolio of $246,900, which is invested overnight by SDCERS' custodial bank. SDCERS does not have a target allocation to cash; any cash or cash equivalent balances on deposit are reserved for paying benefits and SDCERS' operational expenses.

SDCERS' un-invested cash balances held in a demand deposit account (DDA) are subject to custodial credit risk. Such a balance or deposit with the bank establishes a debtor-creditor relationship and is not subject to the protection afforded SDCERS' other investments. Cash balances held in Short-Term Investment Funds (STIF) at State Street Bank and Trust Company (State Street) are held in SDCERS' name and are not subject to custodial credit risk. As of June 30, 2018, SDCERS held $279,900 in STIF and $8,700 on deposit with the custodial bank. SDCERS does not have a specific policy relating to custodial credit risk because the majority of SDCERS' assets are held in SDCERS' name and are not available to satisfy the obligations of State Street to its creditors.

Investments

As of June 30, 2018, 100% of SDCERS' investments were held in SDCERS' name. SDCERS is not exposed to custodial credit risk related to these investments.

Securities Lending Collateral

SDCERS' custodial bank acts as its securities lending agent. SDCERS is exposed to custodial credit risk for the securities lending collateral such that certain collateral is received in the form of letters of credit, tri-party collateral or securities collateral. The fair value of non-cash collateral totaled $151,000 as of June 30, 2018. The non-cash collateral is not held in SDCERS' name and cannot be sold without a borrower default. The cash collateral held by SDCERS' custodian in conjunction with the securities lending program, which totaled $171,300 as of June 30, 2018, is also at risk as it is invested in pooled vehicles managed by the custodian. The investment characteristics of the collateral pools are disclosed in the Securities Lending section of this note.

q. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The table on the following page represents SDCERS' securities held in a foreign currency as of June 30, 2018.

Local Currency Name	Cash	Equity	Fixed Income	Total
Argentine Peso	$ 79	$ —	$ 605	$ 684
Australian Dollar	289	10,355	—	10,644
Brazilian Real	—	313	2,658	2,971
British Pound	540	71,830	3,879	76,249
Canadian Dollar	771	4,245	3,373	8,389
Danish Krone	1	5,958	15,657	21,616
Euro Currency	(351)	118,304	8,337	126,290
Hong Kong Dollar	24	19,858	—	19,882
Japanese Yen	833	69,605	16,823	87,261
Malaysian Ringgit	—	702	—	702
Mexican Peso	—	1,021	—	1,021
Norwegian Krone	—	592	—	592
South Korean Won	—	2,288	—	2,288
Swedish Krona	1	4,949	—	4,950
Swiss Franc	—	28,834	—	28,834
Taiwanese Dollar	—	393	—	393
Total	$ 2,187	$ 339,247	$ 51,332	$ 392,766

This schedule does not include the foreign currency exposure of three international equity, one global equity, two emerging market equity and two emerging market debt (fixed income) institutional commingled mutual fund investments.

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held by SDCERS as an investment. Foreign currency is held temporarily in foreign accounts until it is able to be repatriated or expended to settle trades. An important component of the diversification benefit of non-domestic investments comes from foreign currency exposure. SDCERS does not have a general investment policy in place to manage foreign currency risk or to hedge against fluctuations in foreign currency exposure. Instead, SDCERS' investment managers may hedge currencies at their discretion pursuant to their specific investment guidelines included in each of their investment management agreements.

r. Derivative Instruments

As of June 30, 2018, the derivative instruments held by SDCERS are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized in the Statement of Changes in Fiduciary Net Position.

SDCERS' investment managers, as permitted by their specific investment guidelines, may enter into transactions involving derivative financial instruments, consistent with the objectives established by the SDCERS' Investment Policy Statement. These instruments include futures, options, swaps, forwards, warrants and rights. By Board policy, these investments may not be used to leverage SDCERS' portfolio, i.e., use derivatives to increase the portfolio's notional exposure to any given asset class. These instruments are used in an attempt to enhance the portfolio's performance and/or reduce the portfolio's risk.

All investment derivatives discussed below are included in the investment risk discussion (section j). Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio.

The following table provides a summary of the derivative instruments outstanding as of June 30, 2018:

	Net Appreciation (Depreciation) in Fair Value	Fair Value at June 30, 2018		
Investment Derivative Instruments	Amount	Classification	Amount	Notional (Dollars)
Credit Default Swaps	$ (32)	Domestic Fixed Income	$ 192	$ 11,934
Fixed Income Futures	(10,813)	Domestic Fixed Income	—	196,593
Fixed Income Options	(57)	Domestic Fixed Income	(90)	(45,000)
Foreign Currency Futures	242	Domestic Fixed Income	—	—
Foreign Currency Options	103	Domestic Fixed Income	—	—
Futures Options	95	Domestic Fixed Income	(6)	(32)
Foreign Currency Forwards	217	Domestic Fixed Income	1,153	91,147
Index Futures	10,208	Domestic Fixed Income	—	20
Interest Rate Swaps	2,682	Domestic Fixed Income	1,786	180,654
Rights	(11)	Domestic Equity	139	1,285
Total Derivative Instruments	$ 2,634		$ 3,174	$ 436,601

Some derivative instruments, such as credit default swaps and interest rate swaps, are not exchange traded and are priced using quarterly Over-the-Counter trading data.

Futures contracts are financial instruments that derive their value from underlying indices or reference rates and are marked-to-market at the end of each trading day. Daily settlement of gains and losses occur on the following business day. As a result, the futures contracts do not have a fair value as of June 30, 2018. Daily settlement of gains and losses is a risk control measure to limit counterparty credit risk. Futures variation margin amounts are settled each trading day and recognized in the financial statements under net appreciation (depreciation) in fair value of investments as they are incurred.

Foreign currency forward contracts are obligations to buy or sell a currency at a specified exchange rate and quantity on a specific future date. The fair value of the foreign currency forwards is the unrealized gain or loss calculated based on the difference between the specified exchange rate and the closing exchange rate at June 30, 2018.

Counterparty Credit Risk

The following table illustrates the counterparty credit ratings of SDCERS' non-exchange traded investment derivative instruments outstanding and subject to loss at June 30, 2018:

Counterparty Name	Fair Value	S&P Rating
Bank of America N.A.	$ 402	A+
BNP Paribas SA	34	A
Citibank N.A.	256	A+
Goldman Sachs International	156	BBB+
HSBC Bank USA	5	AA-
JP Morgan Chase Bank N.A.	86	A+
Morgan Stanley Bank N.A.	133	A+
Morgan Stanley CME	267	BBB+
Morgan Stanley ICE	159	BBB+
Morgan Stanley LCH	1,719	BBB+
Royal Bank of Canada	16	AA-
Societe Generale	143	A
Standard Chartered Bank	23	A
Standard Chartered Bank, London	252	A
Toronto Dominion Bank	9	AA-
UBS AG	52	A+
Total	$ 3,712	

The aggregate fair value of investment derivative instruments in an asset position subject to counterparty credit risk at June 30, 2018 was $3,712. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. At June 30, 2018, SDCERS did not have any significant exposure to counterparty credit risk with any single party. SDCERS does not have any specific policies relating to the posting of collateral or master netting agreements.

Custodial Credit Risk

At June 30, 2018, all of SDCERS' investments in derivative instruments were held in SDCERS' name and were not exposed to custodial credit risk.

Interest Rate Risk

At June 30, 2018, SDCERS was exposed to interest rate risk on its investments in interest rate swaps, options, and credit default swaps. The table below illustrates the maturity periods of these derivative instruments.

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
Credit Default Swaps	$ 192	$ —	$ 192	$ —	$ —
Fixed Income Options	(90)	(28)	(62)	—	—
Interest Rate Swaps	1,786	—	257	300	1,229
Total	$ 1,888	$ (28)	$ 387	$ 300	$ 1,229

Derivative Instruments Highly Sensitive to Interest Rate Changes

Credit default swaps, fixed income futures, options and interest rate swaps are highly sensitive to changes in interest rates. The table below reflects the fair value and notional amount of these derivative instruments as of June 30, 2018.

Investment Type	Fair Value	Notional
Credit Default Swaps	$ 192	$ 11,934
Fixed Income Futures	—	196,593
Fixed Income Options	(90)	(45,000)
Interest Rate Swaps	1,786	180,654
Total	$ 1,888	$ 344,181

Foreign Currency Risk

At June 30, 2018, SDCERS was exposed to foreign currency risk on its investments in options, currency forward contracts and interest rate swaps denominated in foreign currencies.

		Foreign Currency Forwards			
Currency Name	Options/ Rights/ Warrants	Net Receivables	Net Payables	Swaps	Total
Brazilian Real	$ —	$ (42)	$ 421	$ —	$ 379
Canadian Dollar	—	(26)	68	43	85
Danish Krone	—	1	324	—	325
Euro Currency	139	(3)	54	789	979
Pound Sterling	—	(7)	24	127	144
Japanese Yen	—	(4)	320	(152)	164
Swedish Krona	—	(187)	210	—	23
Subtotal	139	(268)	1,421	807	2,099
Investments Denominated in USD	(96)	—	—	1,171	1,075
Total	$ 43	$ (268)	$ 1,421	$ 1,978	$ 3,174

In addition to the investments listed in the above table, SDCERS has investments in foreign futures contracts with a total notional value of ($9,900) and in foreign index futures with a total notional value of $600. As indicated previously, futures variation margin amounts are settled each trading day and recognized as realized gains/losses as they are incurred. As a result, the foreign futures contracts have no fair value at June 30, 2018.

Contingent Features

At June 30, 2018, SDCERS did not hold any positions in derivatives containing contingent features.

s. Private Equity and Infrastructure

Private Equity assets are generally defined as direct investments in projects or companies that are privately negotiated and typically do not trade in a capital market. The risk is that these instruments are usually equity interests, generally illiquid and long-term in nature.

Infrastructure is a subset of Private Equity, defined as permanent essential assets society requires to facilitate the orderly operation of the economy, such as roads, water supply, sewers, power and telecommunications. The risk is that these investments are usually equity interests that are generally illiquid and long-term in nature.

SDCERS' target allocation to private equity and infrastructure is 13%, with a portfolio composition focused on value and current income producing strategies. Unfunded capital commitments as of June 30, 2018 totaled $796,700 and private equity and infrastructure investments totaled $1,144,000.

t. Real Estate

SDCERS' long-term target allocation to real estate is 11%. In July 2017, the target allocation to real estate was increased to 13% over the next four to five years. The Board has established that the composition of the real estate portfolio is 100% to private real estate investments. The portfolio is diversified with a target of 70% in core real estate and 30% in value-add and opportunistic real estate. No more than 40% of SDCERS' real estate portfolio is allocated to non-U.S. real estate investment opportunities.

Certain real estate investments are leveraged. In those cases, partnerships have been established to purchase properties through a combination of equity contributions from SDCERS, other investors and through the utilization of debt. SDCERS engages real estate advisors and operating partners who are responsible for managing a portfolio's daily activities, performance and reporting. As of June 30, 2018, real estate investments totaled $837,900 and unfunded capital commitments totaled $301,100. Pursuant to a policy, SDCERS has established a maximum leverage limit of 50% at the portfolio level. As of June 30, 2018, SDCERS' real estate portfolio had leverage of 30.9%. SDCERS' share of outstanding debt in the real estate portfolio is $47,400, excluding obligations of limited partnership interests in commingled funds. This balance of debt is comprised of all non-recourse loans that currently bear interest at rates ranging from 3.11% to 4.40% and maturity dates that range from February 2019 through June 2023.

The following table illustrates mortgage loans that SDCERS has outstanding as of June 30, 2018.

Fiscal Year Ending June 30	Principal	Interest	Total
2019	$ 9,511	$ 1,440	$ 10,951
2020	6,851	1,189	8,040
2021	—	980	980
2022	—	980	980
2023	31,000	979	31,979
Total	$ 47,362	$ 5,568	$ 52,930

u. Securities Lending

SDCERS has entered into an agreement with State Street, its custodial bank, to lend domestic and international equity and fixed income securities to broker-dealers and banks in exchange for pledged collateral that will be returned for the same securities plus a fee in the future. All securities loans can be terminated on demand by either the lender or the borrower.

State Street manages SDCERS' securities lending program and receives cash and/or securities as collateral. Borrowers are required to deliver collateral for each loan equal to at least 102% for domestic loans and 105% for international loans. State Street does not have the ability to pledge or sell collateral securities delivered absent a borrower default. During fiscal year 2018, SDCERS had no credit risk exposure to borrowers because the amounts provided to State Street on behalf of SDCERS, in the

form of collateral plus accrued interest, exceeded the amounts broker-dealers and banks owed to State Street on behalf of SDCERS for securities borrowed. State Street has indemnified SDCERS by agreeing to purchase replacement securities or return cash collateral if a borrower fails to return or pay distributions on a loaned security. SDCERS incurred no losses during the fiscal year resulting from any reported default of the borrowers or State Street. Non-cash collateral (securities and letters of credit) are not reported in SDCERS' financial statements.

When lending its securities on a fully collateralized basis, SDCERS may encounter various risks related to securities lending agreements. These risks include operational risk, borrower or counterparty default risk, and collateral reinvestment risk. State Street is required to maintain its securities lending program in compliance with applicable laws of the United States and all countries in which lending activities take place, as well as all rules, regulations, and exemptions from time to time promulgated and issued under the authority of those laws.

As of June 30, 2018, securities on loan collateralized by cash had a fair value of $167,800 and SDCERS received cash collateral of $171,300, which was reported as securities lending obligations in the accompanying Statement of Fiduciary Net Position. As of June 30, 2018, securities on loan collateralized by securities, irrevocable letters of credit, or tri-party collateral had a fair value of $140,500 and a collateral value of $151,000, which were not reported as assets or liabilities in the accompanying Statement of Fiduciary Net Position. The total collateral pledged to SDCERS at June 30, 2018 for its securities lending activities was $322,300.

SDCERS and the borrowers maintain the right to terminate securities lending transactions upon notice. The cash collateral received for lent securities was invested by State Street, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment fund, or collateral pool. State Street maintains two collateral pools: a liquidity pool and a duration pool. As of June 30, 2018, these collateral pools were not rated by the NRSROs.

As of June 30, 2018, SDCERS had $170,500 invested in the Quality D liquidity collateral pool, which had an average duration of 27.2 days and an average weighted final maturity of 113.7 days. SDCERS had $800 invested in the Quality D duration pool, which had an average duration of 19.6 days and an average weighted final maturity of 1,666.4 days. Duration is the weighted time average until cash flows are received in the collateral pool and is measured in days. Alternatively, the weighted average final maturity measures when all final maturities in the portfolio will occur. The duration of the investments made with cash collateral does not generally match the duration of the loans. This is because the loans are terminable at any time by SDCERS or the borrower.

Discretely Presented Component Unit - Disclosures for Policy and Specific Risks

Narratives and tables presented in the following section are taken directly from the audited comprehensive annual financial report of the San Diego Housing Commission (SDHC) as of June 30, 2018 (certain terms have been modified to conform to the City's CAFR presentation).

v. San Diego Housing Commission

Cash, cash equivalents, and investments at June 30, 2018 consisted of the following:

	SDHC	Component Units [1]	Total
Deposits and Petty Cash	$ 31,992	$ 10,310	$ 42,302
U.S. Agency Bonds	73,926	—	73,926
Negotiable Certificates of Deposit	4,408	—	4,408
San Diego County Investment Pool	20,999	—	20,999
State Local Agency Investment Fund	11,179	—	11,179
Other	25	—	25
Total cash and investments	142,529	10,310	152,839
Restricted cash and cash equivalents	3,824	3,651	7,475
Total	$ 146,353	$ 13,961	$ 160,314

[1] Disclosures for San Diego Housing Commission's Discretely Presented Component Units are not included in the narratives following this table.

Deposits

The carrying amount of the SDHC's cash deposits and petty cash was $31,992 at June 30, 2018. The bank balances were insured by the Federal Deposit Insurance Corporation (FDIC) up to $250. For amounts over $250, bank balances were collateralized with securities held by the pledging financial institutions in SDHC's name. The California Government Code requires California financial institutions to secure cash deposits of public institutions not covered by federal deposit insurance by pledging securities as collateral. California Government Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. As a result, the collateral for cash deposits is considered to be held in SDHC's name.

The fair value of pledged securities must equal at least 110% of SDHC's cash deposits. California law also allows financial institutions to secure SDHC's deposits by pledging first trust deed mortgage notes having a value of 150% of SDHC's total cash deposits.

Investment Policy

In accordance with state statutes and Housing and Urban Development (HUD) regulations, SDHC has authorized its Chief Financial Officer or designee to invest in obligations of the U.S. Treasury, U.S. Government agencies or other investments as outlined in the SDHC Investment Policy.

SDHC utilizes the services of an experienced financial advisor to aid in making investment decisions. The advisor provides guidance on creating a diversified portfolio and a secure investment mix. The advisor's ongoing role is to provide staff with sound investment opportunities that will maximize liquidity and yield without sacrificing principal value and safety of the investment securities.

Investments in the San Diego County Investment Pool (SDCIP) and California State Local Agency Investment Fund (LAIF) represent SDHC's equity in pooled investments. Other investments such as certificates of deposit, bonds, government agency securities and demand deposit accounts are safe kept with commercial banking institutions.

Investments

As of June 30, 2018, SDHC had investments in agency bonds, negotiable certificates of deposit, SDCIP and LAIF. The following paragraphs provide further detail for each investment.

GASB Statement No. 72, *Fair Value Measurement and Application*, establishes a hierarchy for ranking the quality and reliability of information used to determine fair values of assets and liabilities. SDHC's management has determined, through implementation of GASB Statement No. 72, those investments in SDCIP and LAIF are reported based upon the application of a fair value factor to each one dollar share invested and is not included in the fair value hierarchy. The following table summarizes the valuation of SDHC's fair value measurements in accordance with authoritative guidance at June 30, 2018:

Investment Type	Level 2 Fair Value
U.S. Agency Bonds	$ 73,926
Negotiable Certificates of Deposit	1,468
Total Investments	$ 75,394

Investments in U.S. Agency bonds and negotiable certificates of deposit are classified as Level 2 as there are no quoted market prices published. These investments are traded on a secondary market and thus a fair value is able to be determined using this secondary market value.

SDHC's investments under U.S. Government Agency bonds are Mortgage Backed Security (MBS) bonds and debentures traded on an active secondary market. MBS Bonds are a security or debt obligation that represents a claim on the monthly cash flows from mortgage loans. They represent investments in securities that are backed by pools of high quality consumer or commercial mortgages guaranteed by a government agency or Government Sponsored Enterprises (GSE). Government Agency Debentures are also bonds traded on an active secondary market and represent a security or debt obligation of the issuer. While Standard & Poor's and Moody's do not specifically rate MBS, they carry an implied rating based on the high quality collateral that backs the bonds and the AA+ by Standard & Poor's of the GSE (Fannie Mae/Freddie Mac) that issues/guarantees them. At June 30, 2018, SDHC had $73,926 invested in Agency MBS bonds.

SDHC had a total of $4,408 in in negotiable certificates of deposit in its investment portfolio. Each certificate of deposit is issued through a separate legal entity and purchased in an amount under the FDIC insured limit of $250. As of June 30, 2018, $2,940 of negotiable certificates of deposit are valued at amortized cost.

SDHC voluntarily participates in the SDCIP. SDCIP is a Standard & Poor's AAA rated fund managed by the San Diego County Treasurer-Tax Collector. The fair value of SDCIP's investment portfolio at June 30, 2018 was $8,950,424. The investment portfolio had a weighted average yield to maturity of 1.94%, weighted average days to maturity of 345 days and an effective duration of 0.83 years. As of June 30, 2018, SDHC had $20,999 invested in SDCIP.

In addition to SDCIP, SDHC participates in the State's LAIF. LAIF is part of the State of California Pooled Money Investment Account (PMIA) and is protected by statute ensuring invested funds remain SDHC's assets. PMIA is not registered with the SEC but is required to invest in accordance with California Government Code. As of June 30, 2018, the average maturity of PMIA investments was 193 days and the balance of the investment portfolio of PMIA was approximately $89,000,000. SDHC had $11,179 invested with LAIF as of June 30, 2018.

Investment Risk Factors

SDHC's investment policy allows the agency to invest surplus funds in accordance with the provisions of HUD Notice PIH 96 - 33 and California Government Code Sections 5922 and 53601. The investment policy's foremost objective is the safety of principal, which is achieved by mitigating credit risk and interest rate risk. These risks, along with custodial risk, concentration of credit risk and market risk, all affect the value of investments to a varying degree. Equity and debt securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed income securities are particularly sensitive to credit risk and changes in interest rates.

Market Risk

Market risk is the risk that the value of an investment will change due to changes in the financial market. Changes in market conditions can increase Interest Rate Risk, Liquidity Risk and Reinvestment Risk.

- *Interest Rate Risk* is the risk associated with declines or rises in interest rates, which cause an investment in a fixed-income security to increase or decrease in value. The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. SDHC does not have a formal policy related to interest rate risk.

- *Liquidity Risk* is the risk of being unable to liquidate an investment prior to maturity. Related to liquidity risk is the concept of marketability, or the ability to sell an instrument on short notice without incurring a meaningful loss in price.

- *Reinvestment Risk* is the risk that the proceeds from a fixed income security cannot be reinvested at less than the same rate of return currently generated by that holding. This risk is common with securities that are callable.

In accordance with its investment policy, SDHC manages market risk by matching portfolio maturities to projected liabilities and monitoring the weighted average maturity of its portfolio. This is done by maintaining a portion of the portfolio in readily available funds and investing in securities with limited call features and an active secondary market. These measures ensure that appropriate liquidity is maintained in order to meet ongoing operations, maximize return and limit exposure to changing market conditions.

SDHC's exposure to interest rate risk as of June 30, 2018 is shown in the following table:

	Maturities as of June 30, 2018			
	Less Than 3 Months	4-12 Months	1-5 Years	Total Fair Value
Cash and Cash Equivalents: [1]				
Deposits	$ 31,982	—	—	$ 31,982
Petty Cash	10	—	—	10
Restricted Cash and Cash Equivalents	3,824	—	—	3,824
Total Cash and Cash Equivalents	35,816	—	—	35,816
Short-Term Investments:				
U.S. Agency Bonds	888	4,670	—	5,558
Negotiable Certificates of Deposit	979	489	—	1,468
Other	25	—	—	25
San Diego County Investment Pool	—	20,999	—	20,999
State Local Agency Investment Fund	—	11,179	—	11,179
Total Short-Term Investments	1,892	37,337	—	39,229
Long-Term Investments:				
U.S. Agency Bonds	—	—	68,368	68,368
Negotiable Certificates of Deposit	—	—	2,940	2,940
Total Long-Term Investments	—	—	71,308	71,308
Total Cash, Cash Equivalents, and Investments	$ 37,708	$ 37,337	$ 71,308	$ 146,353

[1] Cash and Cash Equivalents do not have maturities.

Credit Risk

Fixed income securities are subject to credit risk, which is the risk that an issuer will fail to pay interest or principal in a timely manner or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. Certain fixed income securities, including obligations of the U.S. Government or those explicitly guaranteed by the U.S. Government are considered to have minimal credit risk. SDHC minimizes credit risk by limiting investments to those listed in the investment policy. In addition, SDHC pre-qualifies the financial institutions, broker/dealers, intermediaries, and advisors with which SDHC will do business in accordance with the investment policy. SDHC diversifies the investment portfolio to minimize potential losses from any one type of security or issuer.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing SDHC to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. Investments issued or guaranteed by the U.S. government and investments in external investment pools such as LAIF and SDCIP are not considered subject to concentration of credit risk.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the custodian, the investments may not be returned. All bonds are purchased through SDHC's primary financial institution's clearing account in SDHC's name where all securities are held in safekeeping.

The exposure of SDHC's debt securities to credit risk as of June 30, 2018 is as follows:

	Standard & Poor's Credit Rating		
	AAA	Rating Not Provided	Total Fair Value
Short-Term Investments			
U.S. Agency Bonds[1]	$ —	$ 5,558	$ 5,558
Negotiable Certificates of Deposit	—	1,468	1,468
San Diego County Investment Pool	20,999	—	20,999
State Local Agency Investment Fund	—	11,179	11,179
Other	25	—	25
Total Short-Term Investments	21,024	18,205	39,229
Long-Term Investments			
U.S. Agency Bonds[1]	—	68,368	68,368
Negotiable Certificates of Deposit	—	2,940	2,940
Total Long-Term Investments	—	71,308	71,308
Total Investments	$ 21,024	$ 89,513	$ 110,537

[1] As of June 30, 2018, SDHC exceeded the 5% limit of total investments for issuers of various U.S. Agency Bonds.

4. CAPITAL ASSETS (Dollars in Thousands)

Capital asset activities for the year ended June 30, 2018 are as follows:

	Primary Government				
	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
GOVERNMENTAL ACTIVITIES					
Non-Depreciable Capital Assets:					
Land and Rights of Way	$ 1,883,487	$ 5,018	$ (1,363)	$ 1,815	$ 1,888,957
Easements (Intangible)	5,228	718	(50)	(212)	5,684
Artwork/Historical Treasures	—	7	—	5,045	5,052
Construction in Progress	462,111	193,071	(1,622)	(203,024)	450,536
Total Non-Depreciable Capital Assets	2,350,826	198,814	(3,035)	(196,376)	2,350,229
Depreciable Capital Assets:					
Structures and Improvements	1,473,733	23,854	(15,945)	20,151	1,501,793
Equipment	431,294	37,654	(21,940)	18,470	465,478
Equipment (Intangible)	50,549	5,075	(151)	5,571	61,044
Infrastructure	3,903,618	28,145	(9,009)	152,135	4,074,889
Total Depreciable Capital Assets	5,859,194	94,728	(47,045)	196,327	6,103,204
Less Accumulated Depreciation:					
Structures and Improvements	(607,202)	(39,703)	14,985	105	(631,815)
Equipment	(264,598)	(30,156)	21,158	(2)	(273,598)
Equipment (Intangible)	(35,733)	(1,109)	75	—	(36,767)
Infrastructure	(2,348,093)	(92,223)	6,463	(93)	(2,433,946)
Total Accumulated Depreciation	(3,255,626)	(163,191)	42,681	10	(3,376,126)
Total Depreciable Capital Assets - Net of Depreciation	2,603,568	(68,463)	(4,364)	196,337	2,727,078
Governmental Activities Capital Assets, Net	$ 4,954,394	$ 130,351	$ (7,399)	$ (39)	$ 5,077,307
BUSINESS-TYPE ACTIVITIES					
Non-Depreciable Capital Assets:					
Land and Rights of Way	$ 97,611	$ 8,864	$ (3)	$ 260	$ 106,732
Easements (Intangible)	2,520	337	(205)	(495)	2,157
Artwork/Historical Treasures	—	—	—	1,875	1,875
Construction in Progress	405,589	277,701	(10,749)	(105,532)	567,009
Total Non-Depreciable Capital Assets	505,720	286,902	(10,957)	(103,892)	677,773
Depreciable Capital Assets:					
Structures and Improvements	2,047,867	2,888	(16,799)	16,503	2,050,459
Equipment	454,707	9,800	(12,993)	12,476	463,990
Equipment (Intangible)	22,987	11,522	—	16,976	51,485
Distribution and Collection Systems and Other Infrastructure	5,206,030	59,770	(23,492)	57,986	5,300,294
Total Depreciable Capital Assets	7,731,591	83,980	(53,284)	103,941	7,866,228
Less Accumulated Depreciation:					
Structures and Improvements	(622,516)	(39,494)	11,042	(187)	(651,155)
Equipment	(325,908)	(13,940)	12,048	823	(326,977)
Equipment (Intangible)	(12,318)	(2,534)	—	(577)	(15,429)
Distribution and Collection Systems and Other Infrastructure	(1,298,699)	(84,158)	9,042	(69)	(1,373,884)
Total Accumulated Depreciation	(2,259,441)	(140,126)	32,132	(10)	(2,367,445)
Total Depreciable Capital Assets - Net of Depreciation	5,472,150	(56,146)	(21,152)	103,931	5,498,783
Business-Type Activities Capital Assets, Net	$ 5,977,870	$ 230,756	$ (32,109)	$ 39	$ 6,176,556

Depreciation expense was charged to functions/programs of the primary government as follows:

GOVERNMENTAL ACTIVITIES	
General Government and Support	$ 8,570
Public Safety - Police	11,412
Public Safety - Fire and Life Safety and Homeland Security	8,570
Parks, Recreation, Culture and Leisure	45,030
Transportation	80,361
Sanitation and Health	9,127
Neighborhood Services	121
Total Depreciation Expense	$ 163,191
BUSINESS-TYPE ACTIVITIES	
Sewer Utility	$ 75,302
Water Utility	57,007
Airports	2,211
Development Services	30
Environmental Services	1,303
Golf Course	1,833
Recycling	125
San Diego Convention Center Corporation	2,315
Total Depreciation Expense	$ 140,126

Capital asset activities for the City's Successor Agency for the fiscal year ended June 30, 2018 are as follows:

	Successor Agency Private-Purpose Trust Fund			
	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Capital Assets:				
Land and Rights of Way	$ 13,279	$ —	$ —	$ 13,279
Construction in Progress	—	159	—	159
Total Non-Depreciable Capital Assets	13,279	159	—	13,438
Depreciable Capital Assets:				
Structures and Improvements	63,899	382	—	64,281
Equipment	819	—	—	819
Total Depreciable Capital Assets	64,718	382	—	65,100
Less Accumulated Depreciation for:				
Structures and Improvements	(16,486)	(1,804)	—	(18,290)
Equipment	(819)	—	—	(819)
Total Accumulated Depreciation	(17,305)	(1,804)	—	(19,109)
Total Depreciable Capital Assets - Net of Depreciation	47,413	(1,422)	—	45,991
Capital Assets, Net	$ 60,692	$ (1,263)	$ —	$ 59,429

Discretely Presented Component Unit - San Diego Housing Commission

Capital asset activities for SDHC for the fiscal year ended June 30, 2018 are as follows:

	Discretely Presented Component Unit - San Diego Housing Commission			
	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Capital Assets:				
Land	$ 69,341	$ 1,999	(1,259)	$ 70,081
Construction in Progress	2,772	13,966	(15,860)	878
Total Non-Depreciable Capital Assets	72,113	15,965	(17,119)	70,959
Depreciable Capital Assets:				
Structures and Improvements	165,292	13,523	6,628	185,443
Equipment	4,821	462	(536)	4,747
Total Depreciable Capital Assets	170,113	13,985	6,092	190,190
Less Accumulated Depreciation for:				
Structures and Improvements	(38,737)	(6,889)	191	(45,435)
Equipment	(4,119)	(326)	536	(3,909)
Total Accumulated Depreciation	(42,856)	(7,215)	727	(49,344)
Total Depreciable Capital Assets - Net of Depreciation	127,257	6,770	6,819	140,846
Capital Assets, Net	$ 199,370	$ 22,735	$ (10,300)	$ 211,805

Capital assets for the discretely presented component units of SDHC as of December 31, 2017 are as follows:

Non-Depreciable Capital Assets:	
Land	$ 2,914
Construction in Progress	5,628
Total Non-Depreciable Capital Assets	8,542
Depreciable Capital Assets:	
Structures and Improvements	69,631
Equipment	1,743
Total Depreciable Capital Assets	71,374
Less Accumulated Depreciation	(10,312)
Total Depreciable Capital Assets - Net of Depreciation	61,062
Capital Assets, Net	$ 69,604

5. GOVERNMENTAL ACTIVITIES LONG-TERM LIABILITIES (Dollars in Thousands)

a. Long-Term Liabilities

The composition of the governmental long-term liabilities as of June 30, 2018 is reflected in the table below:

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2018
Compensated Absences				$ 65,115
Liability Claims				376,593
Reimbursement Agreement Obligations				6,749
Capital Lease Obligations:				
Equipment Vehicle Financing Program (EVFP)	1.26- 2.69%	2029		71,135
101 Ash, LLC	5.55	2037	$ 77,440	74,130
CCP 1200, LLC	6.47	2035	44,000	42,385
Other Capital Leases	0.0-2.29	2032	11,600	9,999
Total Capital Lease Obligations				197,649
Qualified Energy Conservation Bonds (QECB) Lease Obligation	6.16 [1]	2026	13,142	7,578
Loans Payable - California Energy Resources Conservation and Development Commission:				
Issued January 2007	3.95	2019	2,154	208
Issued December 2011	3.0	2024	2,987	1,741
Issued December 2012	1.0	2029	1,986	1,562
Total Loans Payable				3,511
Section 108 Loans Payable		2025	5,910	2,872
Lease Revenue Bonds:				
CCEFA Refunding Bonds, Series 2012A	2.0 - 5.0 [2]	2028	140,440	98,245
PFFA CIP Bonds, Series 2012A	2.0 - 5.0 [2]	2042	72,000	64,985
PFFA Fire and Life Safety Refunding Bonds, Series 2012B	2.0 - 5.0 [2]	2032	18,745	14,790
PFFA CIP/Old Town Light Rail Extension Refunding Bonds, Series 2013A	3.0 - 5.0 [2]	2043	43,245	36,165
PFFA Balboa Park/Mission Bay Park Refunding Bonds, Series 2013B	3.0 - 5.0 [2]	2024	6,285	3,820
PFFA CIP Bonds, Series 2015A	5.0	2045	62,260	62,260
PFFA CIP Bonds, Series 2015B	5.0	2033	45,030	39,960
PFFA Ballpark Refunding Bonds, Series 2016	2.0 - 5.0 [2]	2032	103,255	93,650
PFFA Refunding Bonds, Series 2018A	2.57 - 4.23 [2]	2039	129,320	129,320
Total Lease Revenue Bonds				543,195
Tobacco Settlement Bonds:				
TSRFC Bonds, Series 2018A	2.13-4.02 [2]	2028	70,510	64,365
TSRFC Bonds, Series 2018B	2.75	2027 [3]	2,000	—
TSRFC Bonds, Series 2018C	4.0	2032 [4]	25,345	24,830
Total Tobacco Settlement Bonds				89,195
Total Bonds Payable				632,390
Net Other Postemployment Benefits Liability				427,481
Net Pension Liability (Retirement)				2,049,676
Total Pension Liability (POB)				9,606
Total Governmental Activities Long-Term Liabilities				$ 3,779,220

[1] Nominal interest rate of 6.16% with a net effective rate of 2.66% inclusive of QECB federal subsidy and 6.6% subsidy sequestration calculated by the Federal Office of Management and Budget for fiscal year 2018.

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

[3] Issued and redeemed in FY 2018.

[4] Final maturity date is June 1, 2032. The date listed reflects final turbo redemption payment date projected at the time of issuance.

Liability claims are primarily liquidated by the General Fund, Long-Term Disability Internal Service Fund, and Enterprise Funds. Compensated absences are generally liquidated by the General Fund, Enterprise Funds, and certain Internal Service Funds. Pension and other postemployment healthcare liabilities are paid out of operating funds based on a percentage of covered payroll.

Reimbursement Agreements have contractual provisions whereby a developer either constructs or provides funding towards a public improvement project, which is included as part of an approved City Public Facilities Financing Plan. Typical improvements constructed under this program are transportation projects, parks, fire stations and libraries. A developer is obligated to provide the infrastructure and is later reimbursed with cash or provided program credits against future Facilities Benefit Assessment (FBA), Development Impact Fees (DIF), or Regional Transportation Congestion Improvement Program (RTCIP) payments up to the amount of the eligible infrastructure costs as stated in an approved reimbursement agreement. Reimbursement agreements do not have annual repayment schedules and instead only allow for FBA/DIF/RTCIP cash reimbursement based on the availability of funds.

Taxable QECBs were issued pursuant to the American Recovery and Reinvestment Act of 2009. QECB financing is eligible for the direct interest subsidy payment from the U.S. Department of the Treasury within Section 54(D)a of the Internal Revenue Code of 1986, as amended. The QECBs were issued to fund the Broad Spectrum Street Lighting Conversion Program and are paid from annual appropriations of any source of legally available funds.

Loans Payable represent obligations owed for energy conservation loans received for qualifying energy efficiency retrofits and improvements for certain City facilities. Repayments are secured from the departments that benefit from the facility improvements.

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. The loans are arranged through the U.S. Department of Housing and Urban Development (HUD) and a fixed repayment schedule is provided that allocates a portion of the total obligation issued to each borrower, including the City, as well as other municipalities. Although no interest rate is stated on the repayment schedule, the City pays a portion of the interest as allocated by HUD.

Lease revenue bonds are lease obligations secured by a lease-back arrangement with a public entity. The general operating revenues are pledged to make the lease payments, which are in turn used to pay debt service on the bonds. 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.

Tobacco Settlement Bonds are limited obligations of the Tobacco Settlement Revenue Funding Corporation (TSRFC), which is a separate legal entity established by the City. TSRFC purchased from the City the rights to receive future tobacco settlement revenues (TSRs) due to the City. The Tobacco Settlement Bonds are payable from and secured solely by pledged TSRs.

b. Amortization Requirements

The annual requirements to amortize such long-term debt outstanding as of June 30, 2018, including interest payments to maturity, are as follows:

Year Ending June 30	Equipment Vehicle Financing Program (EVFP)		101 Ash, LLC		CCP 1200, LLC		Other Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 13,745	$ 1,164	$ 2,365	$ 4,052	$ 776	$ 2,720	$ 912	$ 158
2020	12,958	1,182	2,499	3,916	918	2,666	1,196	296
2021	10,646	938	2,642	3,775	1,071	2,602	566	276
2022	9,059	728	2,792	3,624	1,237	2,528	587	256
2023	8,206	537	2,951	3,466	1,417	2,443	608	235
2024-2028	15,635	922	17,471	14,613	10,315	10,478	3,382	829
2029-2033	886	12	23,040	9,044	17,450	6,076	2,748	199
2034-2037	—	—	20,370	2,088	9,201	611	—	—
Total	$ 71,135	$ 5,483	$ 74,130	$ 44,578	$ 42,385	$ 30,124	$ 9,999	$ 2,249

Year Ending June 30	Qualified Energy Conservation Bonds (QECB) Lease Obligation		Loans Payable		Section 108 Loans Payable		Lease Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 871	$ 467	$ 651	$ 71	$ 345	$ 159	$ 26,235	$ 23,623
2020	892	413	453	55	364	139	26,450	23,407
2021	913	358	464	44	385	117	27,850	22,261
2022	935	302	475	33	406	94	29,090	21,014
2023	957	244	486	22	430	69	29,710	19,707
2024-2028	3,010	375	959	26	942	57	157,300	77,496
2029-2033	—	—	23	—	—	—	98,270	46,157
2034-2038	—	—	—	—	—	—	74,790	26,822
2039-2043	—	—	—	—	—	—	60,370	9,940
2044-2048	—	—	—	—	—	—	13,130	665
Total	$ 7,578	$ 2,159	$ 3,511	$ 251	$ 2,872	$ 635	$ 543,195	$ 271,092

Year Ending June 30	Tobacco Settlement Bonds	
	Principal [1]	Interest
2019	$ 6,045	$ 3,209
2020	6,070	3,052
2021	6,175	2,882
2022	6,290	2,692
2023	6,420	2,489
2024-2028	33,365	8,917
2029-2032	24,830	3,973
Total	$ 89,195	$ 27,214

[1] The Tobacco Settlement Bonds principal debt service requirements are based upon final turbo redemption payments projected at time of issuance.

c. Change in Long-Term Liabilities

The following is a summary of changes in governmental activities long-term liabilities for the year ended June 30, 2018. The effect of bond issuance premiums and discounts are reflected as adjustments to the carrying value of long-term liabilities.

	Governmental Activities				
	Beginning Balance, as Restated [1]	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	$ 68,814	$ 59,062	$ (62,761)	$ 65,115	$ 31,954
Liability Claims	369,705	72,472	(65,584)	376,593	87,659
Reimbursement Agreement Obligations	17,074	16,275	(26,600)	6,749	—
Capital Lease Obligations:					
Equipment Vehicle Financing Program (EVFP)	44,281	37,540	(10,686)	71,135	13,745
101 Ash, LLC	76,367	—	(2,237)	74,130	2,365
CCP 1200, LLC	43,030	—	(645)	42,385	776
Other Capital Leases [2]	1,948	8,700	(649)	9,999	912
Total Capital Lease Obligations	165,626	46,240	(14,217)	197,649	17,798
QECB Lease Obligation	8,429	—	(851)	7,578	871
Loans Payable	4,144	—	(633)	3,511	651
Section 108 Loans Payable	3,197	—	(325)	2,872	345
Lease Revenue Bonds	570,460	129,320	(156,585)	543,195	26,235
Unamortized Bond Premiums and Discounts	44,820	—	(4,507)	40,313	4,303
Net Lease Revenue Bonds	615,280	129,320	(161,092)	583,508	30,538
Tobacco Settlement Bonds	64,570	97,855	(73,230)	89,195	6,045
Net Other Postemployment Benefits Liability	427,197	28,412	(28,128)	427,481	—
Net Pension Liability (Retirement)	2,156,830	458,506	(565,660)	2,049,676	—
Total Pension Liability (POB)	10,723	927	(2,044)	9,606	—
Total	$ 3,911,589	$ 909,069	$ (1,001,125)	$ 3,819,533	$ 175,861

[1] Beginning balance for Net OPEB Liability has been restated due to the implementation of GASB Statement No. 75. See Note 23 for additional information.

[2] Other Capital Leases include GE Government Finance Lease.

Under the Master Lease agreement with Banc of America Public Capital Corp, dated October 9, 2015 and amended April 27, 2016, the City lease-purchased twelve fire engines, three brush rigs, and one Hazmat truck in the amount of $9,660 to be financed over a seven-year period at 1.96%. Under the Master Lease agreement dated May 18, 2018, the City lease-purchased a fire helicopter in the amount of $15,636 to be financed over a ten-year period at 2.67%. The remaining additions to EVFP are for various agreements with Banc of America Public Capital Corp for the lease purchase of vehicles, vessels and software, totaling $12,244, to be financed over 5 to 7 year periods at 2.04% to 2.69%.

On February 10, 2017, the City executed a GE Government Finance, Inc. (GEGF) California Master Lease Agreement for a tax exempt equipment lease-purchase financing of the GE Intelligent Cities Project for energy efficient street lighting and adaptive controls. Proceeds of approximately $30,274 will be used to reimburse previously incurred eligible project expenses. The lease term is for thirteen years at a fixed interest rate that reflects the ten-year swap rate less 0.68%. On June 27, 2018, the City received $9,420 for eligible project expenditures. Under a special financing promotion, the City received a credit of $720 on June 27, 2018, with the remaining $8,700 payable in semi-annual installments beginning January 1, 2019 through the term of the lease.

On March 13, 2018, TSRFC issued $70,510 of Tobacco Settlement Bonds, Series 2018A (the Series 2018 Senior Bonds) (federally taxable), $2,000 Tobacco Settlement Bonds, Series 2018B (the Series 2018B Subordinate Bonds) (federally taxable) and $25,345 Tobacco Settlement Bonds, Series 2018C (the Series 2018C Subordinate Bonds) to refund on a current basis the outstanding Tobacco Settlement Asset-Backed Bonds, Series 2006 (the Series 2006 Bonds) and to fund certain capital improvements of the City. The Bonds are limited obligations of TSRFC and are payable solely from the pledged TSRs and other collateral pledged under the Indenture. The pledged TSRs are the right, title, and interest of TSRFC in and to 100% of the Tobacco Assets.

On June 21, 2018, PFFA issued $129,320 of Lease Revenue Refunding Bonds, Series 2018A (Series 2010A Refunding) (federally taxable) to refund the outstanding Lease Revenue Bonds, Series 2010A (Master Refunding Project). The series 2018A Bonds are payable from revenues derived from Base Rental Payments paid by the City for the use and occupancy of the leased property and certain funds established under the indenture.

d. Defeasance and Redemption of Debt

During fiscal year 2018, the Tobacco Settlement Bonds, Series 2018A (the Series 2018 Senior Bonds) (federally taxable) and Tobacco Settlement Bonds, Series 2018B (the Series 2018B Subordinate Bonds) (federally taxable) were issued to refund on a current basis the outstanding Tobacco Settlement Asset-Backed Bonds, Series 2006 (the Series 2006 Bonds). The final maturity date for the Series 2018A Bonds is June 1, 2028. The Series 2018B Bonds were redeemed prior to June 30, 2018. The Series 2006 Bonds were fully redeemed prior to June 30, 2018 and the liability has been removed from the Statement of Net Position. The refunding transaction resulted in a total economic gain of approximately $1,517 and a difference in cash flows of approximately ($5,807).

During fiscal year 2018, the Lease Revenue Refunding Bonds Series 2018A (Series 2018A Refunding) were issued to refund the Authority's outstanding Lease Revenue Refunding Bonds, Series 2010A (Master Refunding Project). The final maturity date for the Series 2018A Bonds is October 15, 2038. The refunded bonds are defeased and the corresponding liability has been removed from the Statement of Net Position. As of March 13, 2018 (closing date), the refunding transaction resulted in a projected total economic gain of approximately $5,699 and a difference in cash flows of approximately $15,311. The 2010A Refunding Bonds will be fully redeemed on September 1, 2020.

As of June 30, 2018, principal amounts payable from escrow funds established for defeased bonds are as follows:

Defeased Bonds	Amount
Lease Revenue Refunding Bonds Series 2010A	$ 132,550

e. Long-Term Pledged Liabilities

Governmental long-term pledged liabilities as of June 30, 2018 are comprised of the following:

Type of Pledged Revenue	Fiscal Year Maturity Date	Pledged Revenue to Maturity	Debt Principal & Interest Paid	Pledged Revenue Recognized
Pledged Development Impact Fee (DIF) Revenue:				
Quarry Falls (Civita) Neighborhood Parks Reimbursement Agreement		$ 3,616	$ 12,308	$ 12,308
Pledged Facilities Benefit Assessment (FBA) Revenue:				
Facilities Financing Reimbursement Agreement Obligations		2,391	13,077	13,077
Pledged Regional Transportation Congestion Improvement Program (RTCIP):				
Quarry Falls (Civita) Neighborhood Parks Reimbursement Agreement		742	1,215	1,215
Naval Training Center Civic, Arts and Cultural Center (Section 108)	2025	3,507	503	503
Pledged Tobacco Settlement Revenue:				
TSRFC Asset-Backed Bonds, Series 2006	2023 [1]	—	2,550	—
TSRFC Bonds, Series 2018 A,B,C	2032 [1]	116,409	9,400	9,400
Total Pledged Tobacco Settlement Revenue		116,409	11,950	9,400
Total		$ 126,665	$ 39,053	$ 36,503

[1] During Fiscal Year 2018, Tobacco Bonds Series 2006 were refunded and Tobacco Bonds Series 2018B were issued and subsequently redeemed.

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

a. Long-Term Liabilities

Business-type activities long-term liabilities as of June 30, 2018 are comprised of the following:

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount [3]	Balance Outstanding June 30, 2018
Arbitrage Liability				$ 1,169
Compensated Absences				13,752
Liability Claims				33,670
Equipment Vehicle Financing Program (EVFP) Capital Lease Obligations	1.67% - 1.84% [1]	2022	$ 2,590	1,160
Other Capital Lease Obligations	2.6 [1]	2021	5,694	3,464
Contracts Payable	2.6 [1]	2021	3,606	2,194
Notes Payable	—	2023	22	11
Loans Payable:				
San Diego Convention Center Corporation (SDCCC)				
California Infrastructure and Economic Development Bank (I-Bank)	3.59 [1]	2042	25,500	25,500
Sewer Utility - State Water Resources Control Board				
Point Loma Digesters 7 and 8, February 9, 2000	1.80 [2]	2020	10,606	1,240
Point Loma Central Boilers, February 9, 2000	1.80 [2]	2022	6,684	1,536
South Bay Water Reclamation Plant, March 30, 2001	1.80 [2]	2022	33,720	7,731
South Bay Sewers and Pump Station, May 17, 2001	1.80 [2]	2022	7,742	1,777
Point Loma Main Building Expansion, May 17, 2001	1.80 [2]	2021	860	150
South Bay Water Reclamation Plant, June 11, 2001	1.80 [2]	2021	2,525	438
South Bay Sewers and Pump Station, October 3, 2002	1.99 [2]	2020	3,767	488
Point Loma Digesters Project C1 and C2, October 3, 2002	1.80 [2]	2023	8,068	2,293
Environment Monitoring and Technical Svcs, December 14, 2005	1.89 [2]	2024	10,093	3,585
Point Loma 4th Sludge Pump Project, October 15, 2006	1.99 [2]	2024	3,858	1,441
Point Loma Digesters S1 and S2, February 28, 2007	1.89 [2]	2026	11,068	5,143
Point Loma Digesters Grit Processing, February 17, 2012	2.70 [1]	2036	31,514	29,012
Sewer Pipeline Rehab Project MNOP, July 10, 2012	2.20 [1]	2033	18,914	12,629
Metro Biosolids Center Storage Silos, August 6, 2015	1.70 [1]	2035	7,204	6,274
MBC Odor Control Facilities Upgrades, July 15, 2015	1.70 [1]	2035	6,840	6,243
MBC Dewatering Centrifuge Replacement, July 8, 2015	1.70 [1]	2039	7,120	7,120
Sewer Pipeline Rehab Project-Q, June 26, 2013	2.20 [1]	2034	4,792	2,014
Sewer Pipeline Rehab Project-RS, August 22, 2013	2.20 [1]	2034	8,924	6,802
Sewer Pipeline Rehab Project-T, July 12, 2016	1.70 [1]	2036	2,314	2,097
MBC Chemical Systems Improvement Phase II, July 12, 2016	1.70 [1]	2037	5,284	5,003
Total Sewer Loans Payable				103,016
Water Utility - State Water Resources Control Board				
Alvarado Water Treatment Plant, May 30, 2011	2.31% [1]	2032	12,000	8,686
Miramar Water Treatment Plant, September 26, 2011	2.31 [1]	2032	20,000	14,474
Otay Water Treatment Plant, December 22, 2011	2.50 [1]	2032	18,000	13,506
Harbor Drive Pipeline Replacement Project, January 29, 2013	2.09 [1]	2036	10,561	9,734
Lindbergh Field Pipeline Replacement Project, January 29, 2013	2.09 [1]	2036	3,262	3,000
University Avenue Pipeline Replacement Project, June 7, 2016	2.09 [1]	2039	22,793	22,793
69th Street & Mohawk Pump Station Project, June 14, 2018	1.70 [1]	2050	2,564	2,564
Total Water Loans Payable				74,757
Total Loans Payable				203,273

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount [3]	Balance Outstanding June 30, 2018
Commercial Paper Notes 2017	1.25-1.88 [1]	2019	$ 168,213	$ 168,213
Revenue Bonds Payable:				
Senior Sewer Revenue Bonds, Series 2009 A	2.0-5.36 [1]	2019	453,775	9,435
Senior Sewer Revenue Refunding Bonds, Series 2009 B	3.0-5.5 [1]	2019	634,940	51,775
Subordinated Water Revenue Bonds, Refunding Series 2012 A	2.0-5.0 [1]	2033	188,610	125,150
Senior Sewer Revenue Refunding Bonds, Series 2015	2.0-5.0 [1]	2027	313,620	308,435
Senior Sewer Revenue Refunding Bonds, Series 2016 A	4.0-5.0 [1]	2039	403,280	396,605
Subordinated Water Revenue Bonds, Series 2016 A	3.0-5.0 [1]	2046	40,540	39,845
Subordinated Water Revenue Bonds, Refunding Series 2016 B	5.0 [1]	2040	523,485	471,605
Total Revenue Bonds Payable				1,402,850
Estimated Landfill Closure and Postclosure Care				53,003
Net Other Postemployment Benefits Liability				122,963
Net Pension Liability (Pension)				472,381
Total Pension Liability (POB)				927
Total Business-Type Activities Long-Term Liabilities				$ 2,479,030

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

[2] Effective rate.

[3] Original Amount is based on the amount disbursed to date and may include capitalize interest.

b. Amortization Requirements

Annual requirements to amortize long-term debt as of June 30, 2018, including interest payments to maturity, are as follows:

Year Ending June 30	Equipment Vehicle Financing Program (EVFP) Capital Lease Obligations		Other Capital Lease Obligations		Contracts Payable		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 376	$ 18	$ 1,125	$ 90	$ 713	$ 57	$ 2	$ —
2020	382	12	1,154	61	731	39	2	—
2021	389	5	1,185	31	750	20	2	—
2022	13	—	—	—	—	—	2	—
2023	—	—	—	—	—	—	2	—
2024-2028	—	—	—	—	—	—	1	—
Total	$ 1,160	$ 35	$ 3,464	$ 182	$ 2,194	$ 116	$ 11	$ —

Year Ending June 30	Commercial Paper Notes		Loans Payable		Revenue Bonds Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ —	$ —	$ 11,894	$ 4,103	$ 91,045	$ 67,830
2020	—	—	12,873	3,832	92,430	63,381
2021	—	—	12,263	3,553	96,850	58,981
2022	—	—	12,311	3,301	101,795	54,383
2023	—	—	9,708	3,013	101,345	49,732
2024-2028	—	—	44,419	11,773	407,400	180,484
2029-2033	—	—	42,635	6,379	238,610	97,999
2034-2038	—	—	18,655	2,114	194,620	47,391
2039-2043	—	—	6,038	352	71,475	6,101
2044-2048	—	—	—	—	7,280	558
Unscheduled [1]	168,213	—	32,477	—	—	—
Total	$ 168,213	$ —	$ 203,273	$ 38,420	$ 1,402,850	$ 626,840

[1] Commercial Paper Notes in the amount of $168,213 do not have fixed annual repayment schedules. Loans payable to the State Water Resources Control Board in the amount of $32,477 do not have fixed annual repayment schedules until construction of the projects are completed and final billing submitted.

c. Change in Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2018. The effect of bond premiums and discounts are reflected as adjustments to long-term liabilities.

	Business-Type Activities				
	Beginning Balance, as Restated [1]	Additions	Reductions	Ending Balance	Due Within One Year
Arbitrage Liability	$ 1,136	$ 33	$ —	$ 1,169	$ —
Compensated Absences	14,154	13,109	(13,511)	13,752	7,304
Liability Claims	30,831	13,426	(10,587)	33,670	5,657
Capital Lease Obligations:					
Equipment Vehicle Financing Program (EVFP)	1,530	—	(370)	1,160	376
Other Capital Lease Obligations	4,561	—	(1,097)	3,464	1,125
Total Capital Lease Obligations	6,091	—	(1,467)	4,624	1,501
Contracts Payable	2,888	—	(694)	2,194	713
Notes Payable	13	—	(2)	11	2
Loans Payable	191,658	23,357	(11,742)	203,273	11,894
Commercial Paper Notes	—	168,213	—	168,213	—
Revenue Bonds Payable	1,489,565	—	(86,715)	1,402,850	91,045
Unamortized Bond Premiums and Discounts	245,601	—	(17,693)	227,908	14,239
Net Revenue Bonds Payable	1,735,166	—	(104,408)	1,630,758	105,284
Estimated Landfill Closure/Postclosure Care	48,530	4,473	—	53,003	—
Net Other Postemployment Benefits Liability [1]	122,884	7,938	(7,859)	122,963	—
Net Pension Liability (Pension)	493,724	92,245	(113,588)	472,381	—
Total Pension Liability (POB)	1,024	81	(178)	927	—
Totals	$ 2,648,099	$ 322,875	$ (264,036)	$ 2,706,938	$ 132,355

[1] Beginning balances for Net OPEB Liability have been restated due to the implementation of GASB Statement No. 75. See Note 23 for additional information.

On October 30, 2017, the City's Water Utility Fund executed State Revolving Fund (SRF) loan agreement with the SWRCB in the amount of $15,000 for the 69th Street and Mohawk Pump Station Project. This project will include the installation of six pumps with 18 million gallons per day (MGD) total capacity, the installation of approximately 7,000 feet of new pipelines, and provide structural improvements to meet seismic code. The obligation is secured by revenues of the Water Utility Fund. The interest rate on the loan is 1.7% and the repayment period is 30 years from completion of construction, which is estimated to be May 1, 2020. As of June 30, 2018, $2,564 was received into the City's Water Utility Fund for this project. The remaining additions to loans payable of $20,793 resulted from various State Revolving Loan Fund proceeds received by the Sewer and Water Utility Funds.

d. Defeasance of Debt

As of June 30, 2018, principal amounts payable from escrow funds established for defeased bonds are as follows:

Water Revenue Defeased Bonds 2016 Escrow (June 23, 2016)	Amount	Redemption Date
Water Revenue Bonds, Refunding Series 2009A	$ 117,260	August 1, 2018
Water Revenue Bonds, Series 2009B	280,645	August 1, 2019
Water Revenue Bonds, Refunding Series 2010A	123,075	August 1, 2020
Total Defeased Bonds Outstanding	$ 520,980	
Sewer Revenue Defeased Bonds 2015 Escrow (September 24, 2015)		
Senior Sewer Revenue Bonds, Series 2009A	$ 70,575	May 15, 2019
Senior Sewer Revenue Bonds, Refunding Series 2009B	148,820	May 15, 2019
Senior Sewer Revenue Bonds, Refunding Series 2010A	99,075	May 15, 2020
Total Defeased Bonds Outstanding	$ 318,470	
Sewer Revenue Defeased Bonds 2016 Escrow (March 30, 2016)		
Senior Sewer Revenue Bonds, Series 2009A	$ 254,065	May 15, 2019
Senior Sewer Revenue Bonds, Refunding Series 2009B	112,340	May 15, 2019
Senior Sewer Revenue Bonds, Refunding Series 2010A	62,855	May 15, 2020
Total Defeased Bonds Outstanding	$ 429,260	

e. Long-Term Pledged Liabilities

Business-type activities long-term pledged liabilities as of June 30, 2018 are comprised of the following:

Type of Pledged Revenue	Fiscal Year Maturity Date	Pledged Revenue to Maturity	Debt Principal & Interest Paid	Pledged Revenue Recognized
Pledged Net Sewer Systems Revenue:				
Loans - State Water Resources Control Board				
Point Loma Digesters 7 and 8, February 9, 2000	2020	$ 1,273	$ 636	$ 636
Point Loma Central Boilers, February 9, 2000	2022	1,605	401	401
South Bay Water Reclamation Plant, March 30, 2001	2022	8,099	2,025	2,025
South Bay Sewers and Pump Station, May 17, 2001	2022	1,858	465	465
Point Loma Main Building Expansion, May 17, 2001	2021	154	51	51
South Bay Water Reclamation Plant, June 11, 2001	2021	454	151	151
South Bay Sewers and Pump Station, October 3, 2002	2020	503	251	251
Point Loma Digesters Project C1 and C2, October 3, 2002	2023	2,421	484	484
Environment Monitoring and Technical Svs, December 14, 2005	2024	3,825	637	637
Point Loma 4th Sludge Pump Project, October 15, 2006	2024	1,544	258	258
Point Loma Digesters S1 and S2, February 28, 2007	2026	5,592	699	699
Point Loma Digesters Grit Processing, February 17, 2012	2036	37,014	2,056	2,056
Sewer Pipeline Rehab Project MNOP, July 10, 2012	2033	14,963	997	997
Metro Biosolids Center-Storage Silos, August 6, 2015	2035	7,276	428	428
MBC Odor Control Facilities Upgrades, July 15, 2015	2035	7,241	426	426
MBC Dewatering Centrifuge Replacement, July 8, 2015	2039	7,120	—	—
Sewer Pipeline Rehab Project-Q, June 26, 2013	2034	2,411	151	151
Sewer Pipeline Rehab Project-RS, August 22, 2013	2034	8,143	509	509
Sewer Pipeline Rehab Project-T, July 12, 2016	2036	2,453	136	136
MBC Chemical Systems Improvement Phase II, July 12, 2016	2037	5,896	310	310
Revenue Bonds				
Senior Sewer Revenue Bonds, Series 2009 A	2019	9,836	9,841	9,651
Senior Sewer Revenue Refunding Bonds, Series 2009 B	2019	54,301	54,298	54,093
Senior Sewer Revenue Refunding Bonds, Series 2015	2027	394,912	14,659	14,659
Senior Sewer Revenue Refunding Bonds, Series 2016 A	2039	610,368	19,315	19,315
Total Pledged Net Sewer Systems Revenue		1,189,262	109,184	108,789
Pledged Net Water Systems Revenue:				
Loans - State Water Resources Control Board				
Alvarado Water Treatment Plant, May 30, 2011	2032	10,159	753	753
Miramar Water Treatment Plant, September 26, 2011	2032	16,924	1,254	1,254
Otay Water Treatment Plant, December 22, 2011	2032	16,091	1,150	1,150
Harbor Drive Pipeline Replacement Project, January 29, 2013	2036	11,733	652	592
Lindbergh Field Pipeline Replacement Project, January 29, 2013	2036	3,617	201	101
University Avenue Pipeline Replacement Project, June 7, 2016	2039	22,793	250	250
69th Street & Mohawk Pump Station Project, June 14, 2018	2050	2,564	—	—
Commercial Paper Notes 2017	2019	168,213	595	595
Revenue Bonds				
Subordinated Water Revenue Bonds, Refunding Series 2012 A	2033	177,483	11,831	11,410
Subordinated Water Revenue Bonds, Series 2016 A	2046	73,162	2,612	2,552
Subordinated Water Revenue Bonds, Refunding Series 2016 B	2040	709,628	46,315	46,315
Total Pledged Net Water Systems Revenue		1,212,367	65,613	64,972
Total Pledged Revenues		$ 2,401,629	$ 174,797	$ 173,761

7. DISCRETELY PRESENTED COMPONENT UNIT LONG-TERM LIABILITIES (Dollars in Thousands)

Narratives and tables presented in the following sections are taken from the audited comprehensive annual financial report of the San Diego Housing Commission as of June 30, 2018.

San Diego Housing Commission

Long-term liabilities of SDHC as of June 30, 2018 are comprised of the following:

Type of Obligation	Interest Rate	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2018 [1]	Due Within One Year
Compensated Absences				$ 2,352	$ 2,352
Notes Payable:					
Debts of SDHC:					
Key Bank Real Estate Capital (Smart Corner) dated November 2011[2]	6.08%	2027	$ 15,000	5,234	880
City of San Diego Successor Agency, dated March 1992	0.00 forgivable	2022	696	696	—
City of San Diego Successor Agency, dated March 18, 2010	1.00 forgivable	2065	6,095	6,080	—
State of California, Housing Loan Conversion Program dated March 10, 2013	3.00	2068	4,555	4,555	—
Red Capital Mortgage, LLC-Courtyard Apartments	4.92	2030	4,169	4,169	62
Debts of the LLCs:					
Greystone Servicing Corp, Inc. FNMA (Belden)	7.32	2040	12,320	11,002	217
Greystone Servicing Corp, Inc. FNMA (Northern)	7.32	2040	10,810	9,654	191
Greystone Servicing Corp, Inc. FNMA (Central)	7.32	2040	14,010	12,511	247
PNC Bank, NA FHA (Southern)	3.76	2046	25,017	21,913	471
PNC Bank, NA FHA (Northern)	3.76	2046	17,500	15,328	329
PNC Bank, NA FHA (Central)	3.65	2046	15,726	13,762	299
Total Notes Payable				104,904	2,696
Less: unamortized debt issuance costs				(1,535)	—
Total Notes Payable, Net				103,369	2,696
Total Long-Term Liabilities				$ 105,721	$ 5,048

[1] Long-term liabilities of the discrete component units of SDHC are not included

[2] Converts to variable interest rate after November 2021

As of June 30, 2018, the current portion of notes payable was $2,696 and the noncurrent portion was $102,208.

Debt issuance costs associated with the LLC loans totaled $2,120, less accumulated amortization of $585 at June 30, 2018. For fiscal year 2018, amortization totaled $74. Under guidance issued by the GASB, these fees would be expensed as incurred. However, as the LLCs are not governmental agencies, they follow the standards issued by the Financial Accounting Standards Board. In accordance with ASU 2015-13, debt issuance costs are capitalized and presented as a direct deduction to notes payable. In addition, the debt issuance costs are amortized over the life of the loan using the effective interest method.

In May 2018, SDHC entered into a $4,169 loan agreement with Red Capital Mortgage, LLC to leverage Courtyard Apartments, which is a 37-unit, affordable rent, property owned by SDHC. The proceeds from the loan funded numerous rehabilitation projects within SDHC's real estate portfolio and administrative costs associated with these projects. The term of the loan is for 12 years, amortized over 30 years, with a fixed interest rate of 4.92% for the life of the loan through the maturity date of June 1, 2030 at which time the unpaid principal balance becomes due and payable.

The American Recovery and Reinvestment Act of 2009 created the new Build America Bond (BABs) program. State and local governments receive subsidy payments directly from the U.S. Treasury for a portion of their borrowing costs on BABs equal to 35% of the total coupon interest paid less reductions in federal appropriations. The subsidy stream is paid for the full term of the bonds. The Belden SDHC FNMA, LLC, the Northern SDHC FHA, LLC and the Southern SDHC FHA, LLC loans have been approved as qualified direct subsidy BABs loans. SDHC received subsidy payments of $722 in fiscal year 2018.

The projected annual principal and interest payment requirements for all of SDHC's notes payable are noted in the table below.

Year Ending June 30	Principal	Interest	Total
2019	$ 2,696	$ 4,799	$ 7,495
2020	2,846	4,648	7,494
2021	3,006	4,488	7,494
2022	3,175	4,318	7,493
2023	3,354	4,138	7,492
2024-2028	13,313	18,519	31,832
2029-2033	19,893	14,041	33,934
2034-2038	21,754	8,461	30,215
2039-2043	17,047	2,742	19,789
2044-2048	6,488	359	6,847
2049-2068	4,556	6,947	11,503
Subtotal	98,128	73,460	171,588
Forgivable loans [1]	6,776	—	6,776
Total Notes Payable	$ 104,904	$ 73,460	178,364
Less: unamortized debt issuance costs			(1,535)
Total Notes Payable, Net			$ 176,829

[1] This amount includes forgivable loans of $696 and $6,080 which are forgiven at maturity in 2022 and 2065, respectively. There was accrued interest of $0 and $198, respectively, as of June 30, 2018.

Discretely Presented Component Units of the San Diego Housing Commission

The long-term liabilities for the discretely presented component units of SDHC as of December 31, 2017 are as follows:

Type of Obligation	Interest Rate	Maturity Date	Original Amount	Balance Outstanding December 31, 2017	Due Within One Year
Notes Payable:					
HDP Mason Housing Corporation:					
SDHC	3.00%	2068	$ 2,365	$ 2,365	$ —
City of San Diego Successor Agency	5.00	2057	1,319	1,319	—
California Housing Finance Agency	3.00	2066	1,181	1,181	—
SDHC	3.00	2057	226	69	—
SDHC - Debt Forgiveness	0.00	2023	230	115	23
Casa Colina, L.P. :					
Red Mortgage Capital, Inc	5.68	2039	3,465	2,807	71
SDHC	3.00	2059	1,600	1,410	—
Logan Development II, L.P.:					
Housing Authority of the City of San Diego / Serviced by JP Morgan Chase, N.A.	5.58	2032	5,300	3,130	54
SDHC	6.00	2050	1,400	1,400	—
City of San Diego Successor Agency	3.00	2050	150	150	—
HDP Broadway, L.P. :					
Housing Authority of the City of San Diego / Serviced by Berkadia Commercial Mortgage	4.49	2044	17,825	17,150	246
HDP Churchill, LP:					
SDHC	3.00	2071	3,800	3,712	—
City of San Diego Successor Agency	3.00	2070	3,000	2,964	—
California Housing Finance Agency	3.00	2070	1,800	1,800	—
SDHC	3.00	2071	2,307	2,125	—
HDP New Palace, L.P.:					
Housing Authority of the City of San Diego / Serviced by Citibank	4.42	2050	2,107	2,107	—
SDHC	4.00	2073	2,945	2,945	—
California Housing Finance Agency	3.00	2072	2,240	2,240	—
HDP Town & Country L.P.:					
Housing Authority of the City of San Diego / Serviced by Citibank	4.54	2057	11,487	11,487	—
SDHC	6.80	2073	13,250	13,250	—
HDP Village North LLC:					
Red Mortgage Capital, LLC	4.54	2033	9,100	9,100	99
Housing Development Partners (New Palace Hotel):					
Local Initiative Support Cooperation	2.60-6.00	2017	5,200	—	—
Local Initiative Support Cooperation	5.25	2017	599	—	—
Total Notes Payable				82,826	493
Less: unamortized debt issuance costs				(1,268)	—
Total Notes Payable, Net				$ 81,558	$ 493

Debt issuance costs total $1,506 less accumulated amortization of $238 as of December 31, 2017. The future principal payments on the notes payable are as follows:

Year Ending December 31	Principal
2018	$ 493
2019	525
2020	761
2021	802
2022	840
Thereafter	79,405
Total Notes Payable	82,826
Less: unamortized debt issuance costs	(1,268)
Total Notes Payable, Net	$ 81,558

8. SHORT-TERM LIABILITIES (Dollars In Thousands)

On December 16, 2016, the City adopted a resolution authorizing the issuance of $250,000 tax-exempt subordinate water revenue commercial notes in one or more series. The 2017 Commercial Paper Notes (Water CP Notes), of which the first note was issued on January 31, 2017, are payable from subordinate installment payments by revenues of the City's Water Utility Fund. The notes are secured by irrevocable direct-pay letters of credit (LOCs) from the Bank of the West which expire on January 31, 2020, and Bank of America, N.A. which expires on January 31, 2019. Under this program, PFFA is able to issue notes at prevailing short-term interest rates for periods of maturity of up to 270 days. Upon maturity, the notes can be rolled over for additional intervals of 270 days with new short-term interest rates until the notes are refinanced using a long-term bond or cash repayment option. The funds from the Water CP Notes are used to (i) provide short-term financing for design, acquisition, construction, installation and improvements of components of the City's water system, (ii) reimburse the City's Water Utility Fund for eligible expenditures in accordance with the reimbursement resolution and (iii) pay costs of issuance for the Water CP Notes.

On September 27, 2018, the City adopted a resolution authorizing the issuance and sale by PFFA of one or more series of water revenue bonds (2018 Water Bonds) in an amount not to exceed $283,000 to provide funds for the financing of projects, including refunding all outstanding Water CP Notes. The City has met the conditions prescribed in GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, as (a) the City intends to refinance the Water CP Notes on a long-term basis and (b) the City has the ability to consummate the refinancing. The outstanding balance of $168,213 of Water CP Notes as of June 30, 2018 has been reclassified as a long-term obligation in the Water Utility financial statements.

	Beginning Balance	Additions	Reductions [1]	Ending Balance
Water Revenue Commercial Paper Notes	$ 42,469	$ 125,744	$ 168,213	$ —

[1] Reclassified as a long-term obligation. See Note 6 for more information regarding the outstanding Water Revenue Commercial Paper Notes.

See Note 24 for more information regarding Commercial Paper Program activity.

9. JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS (Dollars in Thousands)

San Diego Geographic Information Source (SanGIS)

SanGIS was created in 1997 as a joint powers agreement between the City and the County of San Diego. The agreement was amended and restated in 2016 to update its provisions and to reflect the current status of the structure and operations of SanGIS. SanGIS objectives are to create and maintain a geographic information system, to market and license digital geographic data and software, to provide technical services, and to publish geographical and land-related information for the City and County, other public agencies, and the private sector. SanGIS is governed by a Board of Directors consisting of one voting member from the City and one from the County. The Board approves the annual budget and fiscal audit, sets long range plans and strategic goals, and authorizes major project funding. All initiatives and decisions must be approved by a consensus of both members of the Board before being implemented. The SanGIS fiscal year 2018 annual budget of $1,429 was funded primarily by equal contributions from the City and County. In its latest audited report, SanGIS reported a decrease in net position of $67 and an ending net position of $259 for the fiscal year ended June 30, 2017. Complete stand-alone financial statements are available at www.sangis.org.

San Diego Workforce Partnership (SDWP)

In 1974 the City and County of San Diego jointly formed a Consortium to provide regional employment and training services throughout San Diego County. In 2016, a revised Joint Powers Authority (JPA) agreement was approved to achieve compliance with Workforce Innovation and Opportunity Act federal legislation. The City and County jointly govern the Consortium. The Consortium's Board of Directors consists of two members of the City Council, two members from the County Board of Supervisors, and one member of a charitable organization. The Consortium is empowered to make applications for and receive grants from governmental or private sources. The Board assigned the non-profit San Diego Workforce Partnership, Inc. as the grant recipient and administrative entity to operate the Consortium. To the extent that law mandates any responsibility upon the City and County for debt obligation or liability, the City and the County have agreed to share equally the payment of such an obligation. In its latest audited report, SDWP reported an increase in net position of $319 and ending net position of $620 for the fiscal year ended June 30, 2017. Complete stand-alone financial statements can be requested from San Diego Workforce Partnership, Inc. 3910 University Avenue, Suite 400, San Diego, CA 92105.

San Dieguito River Valley Regional Open Space Park

The San Dieguito River Valley Regional Open Space Park Joint Powers Authority (JPA) was formed in 1989 by the City and County of San Diego and the Cities of Del Mar, Escondido, Poway, and Solana Beach to create, preserve and enhance the San Dieguito River Valley Regional Open Space Park for the benefit of the public. In 2015 an amended and restated agreement was executed, continuing the JPA for fifty years. The JPA Board is composed of two elected officials each from the County and the City, one elected official each from the Cities of Del Mar, Escondido, Poway, and Solana Beach, and one public member representing the Citizens Advisory Committee. The JPA's funding is primarily comprised of operating grants, contributions, and agency assessments based on population and jurisdictional area. The JPA's fiscal year 2018 annual budget for agency contributions was $986, of which the City's share was $316, or 32%. In its latest audited report, for the fiscal year ended June 30, 2017, the JPA reported a decrease in net position of $585 and an ending net position of $55,805. The debts, liabilities, or obligations of the JPA belong to the JPA, and not the agencies. Upon termination of the agreement or existence of the JPA, real property owned by the JPA will be distributed to the jurisdiction on which the land is located, while remaining assets and liabilities will be divided among the agencies based on the contribution calculation percentages. Complete stand-alone financial statements are available at www.sdrp.org.

10. LEASE COMMITMENTS (Dollars in Thousands)

The City leases various properties and equipment. Leased property having elements of ownership are recorded as capital leases and reported as capital assets in the government-wide and proprietary funds financial statements, along with a corresponding capital lease obligation. Leased property that does not have elements of ownership is reported as an operating lease and is expensed when paid.

Capital Leases

The City has entered into various capital leases for equipment, structures, infrastructure, and intangible assets. These capital leases have maturity dates ranging from July 1, 2018 through December 31, 2036 and interest rates ranging from 0.00% to 6.47%. A schedule of future minimum lease payments under capital leases as of June 30, 2018 is provided in Notes 5 and 6. The value of the City's capital leased assets as of June 30, 2018 is $208,676, net of accumulated depreciation of $40,051. These amounts are categorized by fund type and major asset class in the table below.

Values of Capital Leased Assets by Major Asset Class

	Gross Value	Depreciation	Net Book Value
Governmental			
Structures & Improvements	$ 83,457	$ (3,285)	$ 80,172
Equipment	98,541	(36,000)	62,541
Land	33,049	—	33,049
Construction in Process	17,281	—	17,281
Equipment (Intangible)	9,278	(316)	8,962
Total Governmental	$ 241,606	$ (39,601)	$ 202,005
Business-Type			
Construction in Progress	$ 4,871	$ —	$ 4,871
Infrastructure	2,250	(450)	1,800
Total Business-Type	$ 7,121	$ (450)	$ 6,671

Operating Leases

The City's operating leases consist primarily of rental property occupied by City departments. Lease obligations for City-leased space include rent, utility charges, common area maintenance, storage, and parking. If a department pays for parking, storage, etc. that is not contracted for in the lease, those charges are not included. Departments are allocated charges based on the percentage of the total leased space occupied. The following is a schedule of future minimum rental payments required under operating leases entered into by the City for property that has initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2018:

Year Ending June 30	Amount
2019	$ 20,292
2020	17,920
2021	10,509
2022	9,784
2023	9,424
2024-2028	35,355
2029-2033	33,962
2034-2038	26,113
Total	$ 163,359

Rent expense, as related to operating leases, was $20,721 for the year ended June 30, 2018, of which $12,091 was reported as governmental activities, and $8,630 as business-type activities.

Lease Revenues

The City has operating leases for certain land, buildings, and facilities with tenants and concessionaires. Leased capital asset carrying values of approximately $178,028, as well as depreciation, are reported in Note 4 and are consolidated with non-leased assets. This amount includes $60,186 for Petco Park, which is subject to the Joint Use Management Agreement reported in Note 21. Minimum annual lease revenues are reported in the following schedule:

Year Ending June 30	Amount
2019	$ 45,467
2020	44,141
2021	41,559
2022	40,113
2023	39,267
2024-2028	186,357
2029-2033	172,320
2034-2038	161,159
2039-2043	146,631
2044-2048	133,781
2049-2053	58,414
2054-2058	30,991
2059-2063	16,799
2064-2068	9,146
Total	$ 1,126,145

This amount does not include contingent rentals, which may be received under certain leases of property on the basis of percentage returns. Rental income as related to operating leases was $75,759 for the year ended June 30, 2018, which includes contingent rentals of $30,814.

11. DEFERRED COMPENSATION PLAN (Dollars in Thousands)

The City, SDCCC, and SDHC each offer their employees a deferred compensation plan, created in accordance with Internal Revenue Service Code Section 457, State and Local Government Deferred Compensation Plans. These plans permit eligible employees to defer, pre-tax, a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, disability, or an unforeseeable emergency. All assets and income of the deferred compensation plans are held in trust for the exclusive benefit of plan participants and their beneficiaries.

In accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,* the deferred compensation plans are not considered part of the City's financial reporting entity.

12. PENSION PLANS (Dollars in Thousands)

The City has a defined benefit pension plan and various defined contribution pension plans covering substantially all of its employees. The defined benefit pension plan (Pension Plan) is closed to new City employees hired on or after July 20, 2012 except for sworn police officers who continue to participate in the Pension Plan.

An initiative titled "Comprehensive Pension Reform of San Diego" (Proposition B) was approved by voters on June 5, 2012 and implemented by the City in fiscal year 2013. Generally, the measure amended the City Charter to provide all new City employees hired on or after July 20, 2012, except sworn police officers, with a 401(a) defined contribution plan instead of a defined benefit plan. The initiative contains other provisions intended to limit pension costs for existing employees by directing the City to seek, through labor negotiations, to limit City employees' compensation used to calculate pension benefits. This limitation on the City's negotiating authority was in effect until June 30, 2018. Pensionable pay increases may be authorized with a two-thirds vote of the City Council following preparation of an actuarial report that discloses the impact of any proposed increases in compensation or benefits on the City's Pension Plan.

In fiscal year 2013, the City reached five-year agreements with each of the employees' collective bargaining units for non-pensionable compensation increases for fiscal years 2014 through 2018. The agreements freeze pensionable pay and cost-of-living increases for the same period (pensionable pay ranges were frozen, but pensionable pay within those ranges continues to increase for some employees based on years of service in salary classes and promotions as specified by the 2011 salary ordinance). The labor agreements could have been reopened at the option of employee organizations in fiscal years 2017 and 2018, but only for changes in non-pensionable compensation. On October 15, 2015, the San Diego Municipal Employee Association (MEA), the labor group that represents technical, office, professionals, and supervisory City employees, voted to ratify a tentative labor agreement between MEA and the City for fiscal years 2017 through 2020. Likewise, on or about April 22, 2016, the City reached agreements with American Federation of State, County and Municipal Employees (AFSCME) Local 127, Fire Local 145, Deputy City Attorneys Association of San Diego (DCAA) and Teamsters Local 911 effective for fiscal years 2017 through 2020 (with the exception of DCAA which expires at the end of fiscal year 2019). On December 5, 2017, the City Council ratified an agreement with the San Diego Police Officers Association (POA) to increase pensionable compensation for represented employees totaling 25.6% to 30.6%, depending on the length of sworn service, beginning July 1, 2018. Increases range from 5.0% to 8.3% semi-annually through the end of the term on June 30, 2020. Each non-POA labor agreement increased pensionable pay for fiscal years 2019 and 2020 by 3.3% for each fiscal year, with DCAA only for fiscal year 2019.

Proposition B is the subject of ongoing litigation. On February 11, 2013, a Public Employee Relations Board (PERB) administrative law judge issued a proposed decision finding that the City violated state labor laws by failing to meet and confer with City labor organizations prior to placing Proposition B on the ballot. The City filed exceptions to the proposed decision. On December 29, 2015, PERB issued Decision No. 2464 M (PERB Decision), which affirmed and adopted the proposed decision with minor modifications. The City had filed an appeal with the Fourth District California Court of Appeal, and on April 11, 2017, the Court found the City did not violate state labor laws, however, on July 27, 2017, the California Supreme Court announced they have agreed to review the Fourth District Court of Appeal ruling on Proposition B. The litigation could potentially repeal or unwind the implementation of some requirements of Proposition B. Proposition B closed the defined benefit retirement plan to newly-hired City employees except sworn police officers. Other employees hired after the effective date of Proposition B participate in a defined contribution plan. Since its passage, the City has assumed the validity of Proposition B and has complied with its requirements in all respects. All actual outcomes are dependent on the negotiations with the employee organizations and actual financial impacts are unknown. Notwithstanding the PERB litigation, the actuarial valuation as of June 30, 2017 assumes the validity of Proposition B that the City has fully implemented its requirements as it relates to the City's Pension Plan, and that the City intends to comply with those requirements under the terms specified in the initiative. See Note 24 for more information regarding further developments of Proposition B after the fiscal year reporting date.

DEFINED BENEFIT PLAN

a. Pension Plan Description and Benefits Provided

SDCERS is a public employee retirement system established in fiscal year 1927 by the City, authorized by Article IX of the City Charter. SDCERS administers independent, qualified, single employer governmental defined benefit plans and trusts for the City, the San Diego Unified Port District (Port), and the San Diego County Regional Airport Authority (Airport). The assets of the three separate plans and trusts are pooled in the SDCERS Group Trust for investment purposes. These plans are administered by the SDCERS Board (Board) to provide retirement, disability, death and survivor benefits for its members. Amendments to the City's benefit provisions require City Council approval and amendments to retirement benefits require a majority vote by those SDCERS members who are also eligible City employees or retirees. Benefit increases also require a majority vote of the public. All approved benefit changes are codified in the City's Municipal Code.

The plans cover all eligible employees of the City, the Port, and the Airport. All City employees initially hired before July 20, 2012 working half-time or greater, all sworn police officers of the City irrespective of hire date, and full-time employees of the Port and Airport are eligible for membership and are required to join SDCERS. The Port and Airport are not component units of the City; however, the financial statements of the SDCERS Pension Trust do include the Port and Airport activity and are reported in the fiduciary funds section of this report.

The information disclosed in this note relates solely to the City's participation in SDCERS. City employment classes participating in the City's Pension Plan are elected officers, general employees and safety employees (including police, fire and lifeguard members). These classes are represented by various unions depending on the type and nature of work performed, except for elected officials, unclassified and unrepresented employees.

As a defined benefit plan, retirement benefits are determined under the Pension Plan primarily by a member's class, hire date, age at retirement, number of years of creditable service, and the member's final compensation. The Pension Plan provides annual cost-of-living adjustments not to exceed 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.

Final compensation is based upon either the highest salary earned over a consecutive twelve month period, the highest average salary earned over three one-year periods, or the highest salary earned over a consecutive 36 month period, depending on the member's hire date. To qualify for a service retirement benefit, the Pension Plan requires ten years of service at age 62 for general members (55 for safety members) 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. Under Proposition B, sworn police officers hired after July 1, 2013 have a reduction of 3.0% per year if retiring earlier than age 55. Retirement benefits are awarded at various rates, ranging from 1.0% to 3.5% per year of service multiplied by final compensation depending on the member's plan and hire date. The actual percentage of final compensation per year served component of the calculation rises as the employee's retirement age increases, with the exception of some safety employees and all elected officials, and depends on the retirement option selected by the employee. Some safety members also have the option to elect 3.0% per year of service at age 50 and above, not to exceed 90% of final compensation, as part of the formula to calculate their retirement benefits. The maximum percentage of final compensation per year served is 2.8% for general members, 3.0% for safety members and 3.5% for elected officers. Depending on the number of years of service, participants of the Elected Officer's Retirement Pension component of the Pension 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.

At June 30, 2017, the most recent actuarial valuation, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits [1]	9,768
Inactive (Terminated) Employees Entitled to but not yet Receiving Benefits	2,851
Active Employees	6,388
Total	19,007

[1] Inactive employees include Disabled, Retired, and DROP participants.

Deferred Retirement Option Plan (DROP)

DROP is a program designed to allow members an alternate method of accruing additional retirement benefits from the Pension Plan while they continue to work for the City. Only members hired before July 1, 2005 are eligible to participate in DROP. A member must be eligible for a service retirement to enter DROP. In addition, the member may only participate in the program up to a maximum of five years. Members of Local 145 are permitted to extend the five year period by that amount of post-2002 annual leave not converted to service credits. A DROP participant must agree to end employment with the City on or before the end of the selected DROP participation period. The member's decision to enter DROP is irrevocable.

Upon entering DROP, the participant stops making pension contributions to SDCERS and stops earning service credit. Instead, amounts equivalent to the participant's retirement benefit plus additional DROP contributions are credited to an interest bearing individual account held in the participant's name. While participants were employed by the City, the quarterly interest credited to the DROP participant accounts was 1.5% in the first half of fiscal year 2018 and 2.0% in the second half. When the participant leaves DROP and retires from City service, the participant's DROP account balance may be paid in a lump sum, rolled over to another plan, or converted to monthly payments. The DROP annuity factor used to calculate the monthly payments for fiscal year 2018 was 2.8%. During the period of participation, the participant continues to receive employer offered benefits available to regular employees with exception to earning service credit, as previously discussed.

Purchase of Service Credits

Pension Plan members hired prior to July 1, 2005 are permitted to purchase service credits to be used in determining retirement allowances. Members hired after July 1, 2005 are only permitted to purchase service credits related to certain employee absences such as military leave, long-term disability leave and leave taken under the Family and Medical Leave Act. The cost of purchased service credits is determined by the SDCERS Board consistent with the requirements of the San Diego Municipal Code (SDMC).

Supplemental Cost-of-Living Benefit

On August 5, 2013, the City Council amended the San Diego Municipal Code to provide a method for funding a supplemental cost-of-living benefit (the "Supplemental COLA") previously given to a closed group of retirees who retired on or before June 30, 1982. SDCERS holds a reserve within the plan assets, and pays Supplemental COLA benefits from this reserve. On a yearly basis, the City cash funds the Supplemental COLA reserve based on an estimate of benefits to be paid during the fiscal year. In fiscal year 2018, the City contributed $1,872 towards the Supplemental COLA reserve and paid approximately $1,842 in benefits. As of June 30, 2018, the City's Supplemental COLA reserve had an unspent balance of $147.

b. Funding Policy and Contribution Rates

City Charter Article IX Section 143 requires employees and employers to contribute to the Pension Plan. The Charter section 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 Pension Plan. The City's Actuarially Determined Contribution (ADC) is calculated by SDCERS' actuary and approved by the SDCERS Board. The Charter requires that employer contributions for normal retirement allowances be substantially equal to employee contributions.

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 ADC The administrative component was assumed to be $11.5 million for fiscal year 2018, reflecting the final year of a three year phase-in. For fiscal year 2018 and all fiscal years following, 100% of the expected administrative expenses will be added to the ADC. The administrative component is assumed to increase by 2.5% per year.

The following table shows the City's contribution rates (weighted average of each employee group) for fiscal year 2018, based on the June 30, 2016 actuarial valuation, expressed as percentages of expected payroll:

	Employer Contribution Rates	
	Non-Safety Members	Safety Members
Normal Cost [1]	10.35%	15.54%
Amortization Payment [2]	58.43%	70.03%
Administrative Expense [3]	2.53%	3.14%
Normal Cost Adjusted for Amortization Payment [3]	71.31%	88.71%
City Contribution Rates Adjusted for Payment at the Beginning of the Year	68.96%	85.75%

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

[2] Amortization Payment = The portion of the pension plan contribution, which is designed to pay interest on and amortize the unfunded actuarial accrued liability.

[3] Rates assume that contributions are made uniformly during the Plan year.

Members are required to contribute a percentage of their annual salary to the Pension Plan on a biweekly basis. Rates vary according to entry age. For fiscal year 2018, the City employee weighted average contribution rates as a percentage of annual covered payroll were 9.80% for general members and 14.92% for safety members.

In accordance with Chapter 2, Article 4, Division 15 of the SDMC, earnings in excess of the assumed actuarial rate of return are distributed to various SDCERS system reserves and contingent benefits. The order of distribution and a more detailed discussion of each distribution follows: 1) Pension Plan assets are used to credit interest, at a rate determined by the SDCERS Board, which was 7.00% for fiscal year 2018, to the Employer and Employee Contribution Reserves and between 1.50% - 2.00% to the DROP member accounts; and 2) Pension Plan assets are distributed for supplemental or contingent payments or transfers to reserves. These items include in priority order: 1) Annual Supplement Benefit Payment (13th Check) paid to retirees and their continuances, which ranges from $30 (whole dollars) times the number of years of service credit; 2) Corbett Settlement Payment paid to retirees who terminated employment prior to July 1, 2000 (Corbett Settlement payments not paid in any one year accrue and remain an obligation of SDCERS until paid); and 3) Crediting interest to the Reserve for Supplemental Cost-of-Living Adjustment (SCOLA).

c. Net Pension Liability

The City has relied on the work of the SDCERS actuary to determine the City's Net Pension Liability, and considers the underlying assumptions used by the actuary to be reasonable. The Net Pension Liability is measured as of June 30, 2017, based on the plan net position as of June 30, 2017 and the Total Pension Liability as of the valuation date, June 30, 2016, updated to June 30, 2017. On November 13, 2015, the SDCERS Board approved a change in the long-term discount rate to include in the June 30, 2016 actuarial valuation. The discount rate was lowered from 7.125% to 7.00% for the June 30, 2016 valuation, and to 6.75% for the June 30, 2017 valuation. On September 8, 2017, the SDCERS Board approved further changes to actuarial assumptions, including: a) reductions in the pension system's long-term discount rate from 7.00% to 6.75% effective with the July 1, 2017 actuarial valuation, and from 6.75% to 6.50% effective thereafter; and b) a smoothing of future payments requiring higher City contributions from 2029 to 2033. SDCERS Board decisions are subject to further consideration with other assumptions in the following year's Board approval process. There were changes in assumptions as of the measurement date so the update procedures include the addition of service cost and interest cost offset by actual benefit payments, plus an adjustment due to the assumption changes.

A summary of the updated actuarial assumptions as of the June 30, 2016 actuarial valuation, and the economic experience study is shown below:

Description	Actuarial Assumption
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Funding Method	Entry Age Normal (EAN)
Amortization Method	Closed; Level % (Police), Level $ (non-Police)
Annual Rate of Return on Investments [1]	6.75% net of investment expense
Inflation Rate	3.05% per year, compounded annually
Cost of Living Adjustment	1.9% per year, compounded annually
Projected Salary Increases due to Inflation [2]	0% FY16-FY18, 3.05% thereafter
Mortality	Healthy retired members use CalPERS Mortality Tables

[1] Represents nominal rate of return on investments (includes inflation factor).

[2] Additional merit salary increases of 0.50% to 8.00% based on a participant's years of service, and membership group are also assumed.

The actuarial assumptions used to determine the total pension liability as of June 30, 2017 measurement date were based on the results of a full actuarial experience study performed by the SDCERS actuary for the period July 1, 2010 through June 30, 2015 and adopted by the SDCERS Board in September 2016, and the results of an economic experience study performed by the SDCERS actuary and presented to the SDCERS Board in November 2015.

GASB 68 permits the use of the assumed annual rate of return on investments (6.75%) as the discount rate to measure the projected benefit payments used to calculate the Net Pension Liability, without regard to the funding level of the pension system, if (i) the pension plan's fiduciary net position is projected to be sufficient to make projected benefit payments and (ii) pension plan assets are expected to be invested using a strategy to achieve that return. In determining whether condition (i) is satisfied, the actuary can incorporate all projected cash flows for contributions from the City and from current active employees.

To determine the Pension Plan's projected fiduciary net position, SDCERS' actuary has assumed that employees will continue to contribute to SDCERS at the current rates and that the City will continue its historical practice (since 2006) of contributing to

SDCERS based on an actuarially determined contribution. Accordingly, the City has calculated its Net Pension Liability using a discount rate of 6.75%.

d. Long-Term Expected Real Rate of Return

The target allocation and the best estimates for long-term expected real rates of return for each major asset class of the Pension Plan, as of the June 30, 2017 measurement date, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	21.0%	4.4%
International Equity	15.0%	5.2%
Global Equity	5.0%	5.0%
Domestic Fixed Income	22.0%	1.3%
Emerging Market Debt	5.0%	3.7%
Real Estate	11.0%	3.1%
Private Equity and Infrastructure	13.0%	6.2%
Opportunity Fund	8.0%	4.3%
Total	100.0%	

Source: SDCERS CAFR, fiscal year 2017

Expected return estimates for equity and fixed income were developed using a geometric (long-term compounded) building block approach: 1) expected returns are based on observable information in the equity and fixed income markets and consensus estimates for major economic and capital market inputs, such as earnings and inflation, and 2) where necessary, judgment-based modifications are made to these inputs. Return assumptions for other asset classes are based on historical results, current market characteristics, and professional judgment from SDCERS' general investment consultant specialist research teams.

e. Changes in the Net Pension Liability

The following table shows the changes in Net Pension Liability based on the actuarial information provided to the City:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Postition (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2016	$ 8,946,660	$ 6,296,106	$ 2,650,554
Changes for the Year:			
Service Cost	106,878	—	106,878
Interest	613,530	—	613,530
Differences Between Expected and Actual Experience	71,123	—	71,123
Changes of assumptions	249,740	—	249,740
Contributions - Employer	—	265,572	(265,572)
Contributions - Employee	—	57,050	(57,050)
Net Investment Income	—	857,923	(857,923)
Benefit Payments, Including Refunds of Employee Contributions	(477,039)	(477,039)	—
Administrative Expense	—	(10,778)	10,778
Net Changes	564,232	692,728	(128,496)
Balances at June 30, 2017	$ 9,510,892	$ 6,988,834	$ 2,522,058

The required schedule of changes in the net pension liability and related ratios immediately following the notes to the financial statements presents the beginning and ending balances of the total pension liability, the plan net position available for pension benefits, and the net pension liability, as well as the itemized changes in those amounts during the fiscal year. The schedule also reports a ratio of plan fiduciary net position divided by the total pension liability, the payroll amount for current employees in the plan (covered payroll), and a ratio of the net pension liability divided by covered payroll. Four years of information is presented and will build to 10 years of information on a prospective basis.

The required schedule of employer contributions immediately following the notes to the financial statements presents the City's actuarially determined contribution to the Pension Plan, the City's actual contribution, the difference between the actual and actuarially determined contributions, and a ratio of actual contributions divided by covered payroll.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - Pursuant to GASB 68, the following table presents the Net Pension Liability of the City, calculated using the discount rate of 6.75% as well as what it would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (5.75%)	Discount Rate (6.75%)	1% Increase (7.75%)
Total Pension Liability	$ 10,643,690	$ 9,510,892	$ 8,578,170
Plan Fiduciary Net Position	6,988,834	6,988,834	6,988,834
Net Pension Liability	$ 3,654,856	$ 2,522,058	$ 1,589,336

Pension Plan Fiduciary Net Position - Detailed information about the Pension Plan's Fiduciary Net Position is available in the separately issued SDCERS financial reports available at www.sdcers.org.

f. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the City recognized pension expense of $507,551. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Contributions Subsequent to Measurement Date	$ 328,922	$ —
Differences Between Expected and Actual Experience	54,511	—
Changes in Assumptions	373,264	—
Net Difference Between Projected and Actual Earnings on Pension Plan Assets	—	95,104
Total	$ 756,697	$ 95,104

Pursuant to GASB 68, $328,922 reported as deferred outflows of resources related to pension contributions made subsequent to the measurement date of June 30, 2017, will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized as pension expense in subsequent measurement periods as follows:

Measurement Year Ending June 30	Amount
2018	$ 262,192
2019	155,433
2020	(2,237)
2021	(82,717)

g. Preservation of Benefits (POB) Plan

The POB Plan is a qualified governmental excess benefit arrangement (QEBA) under 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. Because POB Plan is not administered through trusts that meet the criteria specified in GASB 68, it is reported in accordance with requirements of GASB 73, implemented by the City in fiscal year 2017. The requirements of GASB 73 extend the approach to accounting and financial reporting established in GASB 68 to pension plans that are not administered through trusts and meet specific criteria. SDCERS facilitates the payment of these benefits on a pay-as-you-go basis, which is funded by the City. The number of participants in any given year for the POB Plan is determined by the number of Pension Plan participants who exceed the current year's section 415(b) limitations as calculated by SDCERS' actuary. The maximum annual participant payment from a defined benefit plan for calendar year 2017 was $215.

Preservation of Benefit Total Pension Liability

The City's POB Plan pension cost for June 30, 2018 is based on the June 30, 2017 measurement date and on a valuation date of June 30, 2016, updated to June 30, 2017 as prepared by the SDCERS actuary. The Total Pension Liability (TPL) is the actuarial liability calculated under the entry age actuarial cost method. There were changes in the assumptions as of the measurement date, to include the addition of service cost and interest cost offset by actual benefit payments, plus the adjustment due to assumption changes.

A summary of the updated actuarial assumptions as of the June 30, 2016 actuarial valuation and economic experience study is shown below:

Description	Actuarial Assumption
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Funding Method	Entry Age Actuarial Cost
Amortization Method	Closed; Level % (Police), Level $ (non-Police)
Inflation Rate	3.05% per year, compounded annually
Cost of Living Adjustment	1.9% per year, compounded: Active and Deferred Vested
	2.0% per year, compounded: Members in Payment Status
Projected Salary Increases due to Inflation [1]	0% FY16-FY18, 3.05% thereafter
Mortality	Healthy retired members use CalPERS Mortality Tables

[1] Additional merit salary increases of 0.50% to 8.00% based on a participant's years of service, and membership group are also assumed.

GASB 73 allows for a discount rate of a yield or index rate for a 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The Municipal Bond yield for the Bond Buyer 20 year GO index was 2.85% as of the measurement date of June 30, 2016 and 3.58% as of June 30, 2017.

Changes in the Total Pension Liability

The following table shows the changes in the total pension liability for POB based on the actuarial information provided to the City (dollars in thousands):

	Total Pension Liability
Balances at June 30, 2016	$ 11,747
Changes for the Year:	
Service Cost	60
Interest	312
Differences Between Expected and Actual Experience	635
Changes in assumptions	(589)
Benefit Payments	(1,633)
Net Changes	(1,215)
Balances at June 30, 2017	$ 10,532

The required schedule of changes in the total pension liability immediately following the notes to the financial statements presents the beginning and ending balances of the total pension liability as well as the itemized changes in those amounts during the fiscal year. The schedule also reports the payroll amount for current employees in the plan (covered payroll), and a ratio of the net pension liability divided by covered payroll. Two years of information is presented, and will build to 10 years of information on a prospective basis.

Sensitivity of the Total Pension Liability to Changes in the Discount Rate - Pursuant to GASB 73, the following table presents the Net Pension Liability of the City, calculated using the discount rate of 3.58%, as well as what it would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (2.58%)	Discount Rate (3.58%)	1% Increase (4.58%)
Total Pension Liability	$ 11,361	$ 10,532	$ 9,844

Pension Expense and Deferred Outflows/Inflows of Resources Related to POB

For the year ended June 30, 2018, the City recognized pension expense of $917. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
POB Contributions Subsequent to Measurement Date	$ 1,430	$ —
Differences Between Expected and Actual Experience	423	—
Changes in assumptions	529	394
Total	$ 2,382	394

Pursuant to GASB 73, $1,430 reported as deferred outflows of resources related to pension contributions made subsequent to the measurement date of June 30, 2017, will be recognized as a reduction of the total pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized as pension expense in subsequent measurement periods as follows:

Measurement Year Ending June 30	Amount
2018	$ 544
2019	14

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 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 Council established the Supplemental Pension Savings Plan-Hourly (SPSP-H). These supplemental plans are defined contribution plans administered by Wells Fargo to provide pension benefits for eligible employees. The City Council can amend any provisions of the plans that are not part of any employee's vested retirement benefit. If the City amends any non-legally mandated provisions, it must first comply with procedural requirements, including collective bargaining under the Meyers-Milias-Brown Act and for the SPSP plan, after approval by a simple majority vote of all active members. 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 members, lifeguard members and elected officers participate in the plan. Eligible employees may participate from the date of employment; however, the SPSP plan was closed to general and lifeguard members hired on or after July 1, 2009 and January 1, 2011, respectively. The following table details plan participation as of June 30, 2018:

Plan	Participants
SPSP	5,882
SPSP-H	8,141

The SPSP 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 matched by City contributions except for employees represented by the MEA and the California Teamsters Local 911. The match for these employees was 6% during fiscal year 2018. Under the SPSP, 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 SPSP cost.

401(a) Plan Under Proposition B - Proposition B amended the City Charter to provide all new City employees initially hired on or after July 20, 2012, except sworn police officers, with a 401(a) plan that is administered along with SPSP but with different contribution rates, vesting periods and employer match. Non-public safety employees contribute an amount equal to 9.2% of salary, and firefighters, lifeguards, and police recruits contribute 11% of salary (including overtime) on a mandatory basis. The City matches all such contributions and contributions are fully vested immediately upon employment. Police recruits participate in SDCERS upon acceptance of full-time police employment. Due to ongoing litigation regarding Proposition B, the City has not established a new plan for eligible employees. Instead, the City has contributed funds to SPSP-H, an existing 401(a) plan, to eligible employees in accordance with the SPSP-H plan provisions. The City will continue to contribute funds for such employees through the SPSP-H, pending resolution of Proposition B litigation.

In fiscal year 2018, the City and the covered employees contributed $32,830 and $32,443, respectively, including contributions made under the 401(a) Plan under Proposition B. As of June 30, 2018, the plan fiduciary net position totaled $811,758. SPSP, which includes SPSP-H, is considered part of the City's financial reporting entity and is reported as a pension trust fund.

b. 401(a) Plan - City

The City Council established a 401(a) Plan for all General Member employees hired on or after July 1, 2009 and before July 20, 2012. The 401(a) Plan is a defined contribution plan administered by Wells Fargo to provide pension benefits for eligible employees. Employees are eligible to participate from the date of employment and are immediately 100% vested. Employees contribute 1% on a mandatory basis, which is matched by City contributions. Additionally, employees can make voluntary contributions to their 401(a) Plan accounts through payroll deductions not to exceed IRS limits. Voluntary contributions to the plan are not matched by the City. The City Council can amend any provisions of the plan that are not part of any employee's vested retirement benefit. However, if the City amends any non-vested provisions, it must first comply with procedural requirements, including collective bargaining under the Meyers-Milias-Brown Act.

The City and employees contributed $374 and $554, respectively, during the year ended June 30, 2018. As of June 30, 2018, the plan fiduciary net position totaled $6,189. The 401(a) Plan is considered part of the City's financial reporting entity and is reported as a pension trust fund.

c. 401(k) Plan - City

The City Council established a 401(k) Plan effective July 1, 1985. The 401(k) Plan is a defined contribution plan administered by Wells Fargo to provide retirement benefits for eligible employees. Employees are eligible to participate from the date of employment. Employees make contributions to their 401(k) Plan accounts through payroll deductions. The City Council can amend any provisions of the plan that are not part of any employee's vested retirement benefit. However, if the City amends any non-vested provisions, it must first comply with procedural requirements, including collective bargaining under the Meyers-Milias-Brown Act.

The employees' 401(k) contributions are based on IRS calendar year limits. Employees contributed $30,433 during the year ended June 30, 2018. There is no City contribution towards the 401(k) Plan. As of June 30, 2018, the plan fiduciary net position totaled $410,943. The 401(k) Plan is considered part of the City's financial reporting entity and is reported as a pension trust fund.

Narratives presented in the following sections (d. through g.) are taken directly from the fiscal year 2018 annual financial reports of the corresponding entity (certain terms have been modified to conform to the City's CAFR presentation).

d. Pension Plan - Civic San Diego

CSD sponsors a 403(b) tax deferred retirement plan (Plan) of the Internal Revenue Code of 1986, which is provided to all full-time regular employees. The 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. All full-time regular employees are eligible to participate on their first day of employment with an employer contribution amount equal to 7.5% of their eligible bi-weekly compensation.

Effective on the first payroll following three months of employment, CSD contributes an amount equal to 12% of the total eligible bi-weekly compensation for all full-time regular employees. CSD's contributions for each employee are fully vested at the time of contribution. CSD's total payroll (excluding benefits) for fiscal year 2018 was $3,525. CSD's contributions were calculated

based on the Plan's total defined compensation amounts for all eligible employees, which totaled $2,960. CSD made its required contribution amounting to $352 for fiscal year 2018.

The fiduciary responsibilities of CSD consist of making timely contributions and remitting deposits collected. The Plan is not a component unit of CSD and is therefore not reported in the City's basic financial statements.

CSD defined that an eligible participant is a permanent and full-time employee that normally works at least 30 hours per week. An employee is considered to work at least 30 hours per week, if for the 12-month period beginning on the date the employee's employment commenced, CSD reasonably expects the employee to work at least 1,500 service hours and, for each Plan year ending after the close of that 12-month period, the employee has worked at least 1,500 service hours.

e. Pension Plan - San Diego Convention Center Corporation

The SDCCC Money Purchase Pension Plan (SDCCC Plan) is a governmental plan under IRC section 414(d), which was established effective January 1, 1986, by SDCCC's Board of Directors. The SDCCC Plan is administered by SDCCC through a Defined Contribution Committee, represented by the SDCCC Board and staff, who act by a majority of its members in office to carry out the general administration of the plan. Any recommended plan amendments are subject to the approval and adoption by SDCCC's Board of Directors. As part of the SDCCC Plan, SDCCC through Board action selected Wells Fargo & Company as Trustee, to hold and administer plan assets subject to the terms of the SDCCC Plan. The SDCCC Plan is a qualified defined contribution plan and as such, benefits depend on amounts contributed to the plan plus investment earnings less allowable plan expenses. The SDCCC Plan covers all employees who have completed at least 1,000 or more hours of service in one year and are not covered through a union retirement plan.

Full-time employees are eligible to participate in the SDCCC Plan on the first day of the month after completion of 1,000 hours of service and receive contributions on a bi-weekly basis thereafter. Part-time employees are eligible to participate in the SDDCC Plan after completion of 1,000 hours and and receive contributions annually once they meet the 1,000 hours threshold requirement each year. For each Plan year, SDCCC contributes 10% of compensation paid after the employee becomes an eligible participant, which is transferred to the trustee on behalf of each qualifying individual.

SDCCC's Plan year is defined as a calendar year. The balance in the SDCCC Plan 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 SDCCC Plan provisions. For the year ended June 30, 2018, pension expense amounted to $1,247, with no employee contributions made to the SDCCC Plan. Included in pension expense were forfeitures in the amount of $19. SDCCC records pension expense during the fiscal year based upon employee compensation that is included in qualified gross compensation.

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.

f. Pension Plan - San Diego Housing Commission

SDHC provides a pension plan through a defined contribution plan intended to be a "governmental plan" as defined by Section 411(s) (1)(A) and 414(d) of the IRC and Section 3(32) of the Employee Retirement Income Security Act of 1974, as amended (ERISA). The SDHC pension plan covers all SDHC employees classified as permanent full time and permanent part time hired to work a minimum of 20 hours per week.

In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Eligible employees participate on their day of hire. SDHC contributes 14% of defined earnings each pay period for each eligible employee. Contributions (and interest allocated to the employee's account) vest ratably over four years of service, with a year of service defined as an employee completing at least 1,000 hours of service. Any forfeited SDHC contributions and related interest are used to fund a future SDHC pay period contribution. For the fiscal year ended June 30, 2018, covered payroll was $22,492. Pension expense related to SDHC's required contribution was $3,149 and plan members contributed $193 for the fiscal year ended June 30, 2018.

At June 30, 2018, there were 408 employees in the plan, including: 2 inactives receiving benefits, 106 inactives not yet receiving benefits and 300 active employees.

The retirement pension benefit is available at normal retirement age (62nd birthday) or upon termination or disability. The retirement pension benefits are determined based upon the vested value of the participant's accumulation accounts at the time of distribution. Distributions must commence no later than April 1st of the calendar year following the calendar year in which the participant attains age seventy and one-half (70½) years of age.

The SDHC pension plan has a third party fiduciary, Retirement Benefits Group, and a third party recordkeeper, Transamerica. SDHC has the authority to establish and amend the provisions of the Plan including the contribution requirements with the approval of the Board of Commissioners. The SDHC pension plan is audited by an outside firm, and a copy of theaudit report can be obtained by contacting the San Diego Housing Commission at 1122 Broadway, Suite 300, San Diego, California 92101.

The City does not act in a trustee or agency capacity for the SDHC pension plan; therefore, these assets are not reported within the City's basic financial statements.

13. OTHER POSTEMPLOYMENT BENEFITS (Dollars in Thousands)

The City provides postemployment healthcare benefits, also known as other postemployment benefits (OPEB), to qualifying general, safety and elected members through a variety of defined benefit and defined contribution plans. OPEB benefits are established pursuant to the San Diego Municipal Code (SDMC). Plan determination is based on several factors including hire date, termination date and individual employee election as provided for in SDMC Sections 24.1201 through 24.1204 and 29.0101 through 29.0105 (OPEB Plan).

In fiscal year 2012, the City entered into a 15-year memorandum of understanding with employees' collective bargaining units through fiscal year 2027 (Healthcare MOU). Pursuant to the Healthcare MOU, members retiring after April 1, 2012 were required to make an irrevocable election between three retiree healthcare benefit plan options, Options A, B, and C. Options A and B are defined benefit plans and Option C is a defined contribution plan. A significant group of participants elected Option C, substantially reducing the City's OPEB Plan's unfunded actuarially accrued liability in fiscal year 2012. Beginning in fiscal year 2015, the terms of the Healthcare MOU could be renegotiated by either the City or the employees' collective bargaining units, subject to a six-vote approval by the City Council. Any modification of the Healthcare MOU would apply only to active employees and not to retirees or those who have already had the Option C defined contribution plan funded by the City. As of June 30, 2018, the Healthcare MOU has not been renegotiated.

The City's defined benefit plans and the Option C defined contribution plan are closed to employees hired on or after July 1, 2005. For general members hired on or after July 1, 2009, the City established a new defined contribution plan through a trust vehicle (Retiree Medical Trust Plan).

As of the June 30, 2017 actuarial valuation, the following table shows the active and retired employee composition of the defined benefit OPEB Plan:

Inactive Employees or Beneficiaries Currently Receiving Benefits	6,218
Inactive (Terminated) Employees Entitled to but not yet Receiving Benefits	408
Active Employees	542
Total	7,168

The City has pre-funded future postemployment healthcare benefits for defined benefit plan costs through the California Employers' Retiree Benefit Trust (CERBT), an investment trust administered by the California Public Employees' Retirement System (CalPERS). The CERBT is an agent multiple-employer plan as defined by GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* with pooled administrative and investment functions. The purpose of the trust is to receive contributions from participating employers and establish separate employer prefunding accounts to pay for retiree healthcare benefits in accordance with the terms of the participating employer's plans, including the City's defined benefit plans. Contributions to the CERBT are voluntarily determined by each participating employer, and there are no long-term contracts for contributions to the CERBT. CalPERS issues a publicly available CAFR that includes financial statements and required supplementary information for the CERBT, which can be found online at www.calpers.ca.gov. The City's OPEB Plan does not issue a separate annual financial report.

DEFINED BENEFIT PLANS

a. Plan Description

Pursuant to the SDMC, SDCERS processes health insurance premium payments and healthcare reimbursement requests pertaining to the City's retiree healthcare defined benefit plans for eligible retirees. This activity and related balances are reported in the SDCERS basic financial statements as an agency fund. Postemployment healthcare benefits for members retiring from City employment are based on their health eligibility status. Members receiving defined retiree healthcare benefits can be categorized into four main groups as described below:

I. Limited Retiree Health Benefit - Members who retired before October 6, 1980 and are eligible to receive a retirement allowance from SDCERS are entitled to be reimbursed up to $1,200[1] per year for health insurance costs. The retired members are not reimbursed more than the actual health premium or medical costs he or she incurs. This amount does not increase.

II. Plan for members who retired between 1980 and 2012 - Members who retired between October 6, 1980 and March 31, 2012 require 10 years of service with the City to receive 50% of the retiree health reimbursement allowance and receive an additional 5% per year of service in excess of 10 years, resulting in a maximum benefit of 100% at 20 years of service. Reimbursement allowances vary based on retirement date and Medicare eligibility. Medicare eligible retirees under this plan are entitled to receive reimbursement of healthcare premiums, ranging from approximately $8,400[1] to $13,100[1] per year. Retirees who are not eligible for Medicare are entitled to receive reimbursement of healthcare premiums, ranging from approximately $8,900[1] to $13,900[1] per year. Retirees under this plan can obtain health insurance coverage with the plan of their choice, including any City sponsored, union sponsored, or privately secured health plan. Reimbursements for certain retirees under this plan are adjusted annually based upon the projected increase for National Health Expenditures by the Centers for Medicare and Medicaid Services (Annual Inflator). Annual adjustments may not exceed 10% for any plan year. In addition, 100% of Medicare Part B premiums are reimbursed, including income related increases to the standard Part B premium amount. Disabled retirees are eligible for the maximum allowance regardless of years of eligible service credit.

III. Option A Plan - Members not retired by April 1, 2012 who elected Option A under the Healthcare MOU are paid or reimbursed for health insurance premiums by the City up to $9,808[1] annually. Option A was available only to those members who had 25 years of service or were eligible to retire as of April 1, 2012. This benefit amount increases 2% per year. Employees under the Option A Plan are required to pay bi-weekly contributions annually totaling $835[1] for General Members and $877[1] for Safety Members while active or in DROP status in order to receive retiree medical benefits. Employee contribution amounts do not change and cannot be refunded.

IV. Option B Plan - Members not retired by April 1, 2012 who elected Option B under the Healthcare MOU are paid or reimbursed for health insurance premiums by the City up to $5,500[1] annually. The benefit amount for Option B does not change. Option B retirees with 10 years of service receive 50% of the retiree health reimbursement allowance and receive an additional 5% per year of service in excess of 10 years, resulting in a maximum benefit of 100% at 20 years of service. Employees under the Option B Plan are required to pay bi-weekly contributions annually totaling $417[1] for General Members and $443[1] for Safety Members while active or in DROP status in order to receive retiree medical benefits. Employee contribution amounts do not change and cannot be refunded.

[1] Reported as whole dollars.

b. Contributions and Reserves

In accordance with SDMC Section 24.1204, postemployment healthcare benefits are to be paid directly by the City from any source available to it other than the Pension Plan. Each year, the City establishes a retiree healthcare employer contribution amount through the annual budgetary process (Annual Employer Contribution), allocating these costs to various City funds based on employee payroll. Member contributions for the Option A and Option B Plans are collected by the City and deposited in the Postemployment Healthcare Benefit Plan trust fund. Member contributions are not refundable and can be used by the City to cover a portion of the City's defined benefit plan costs.

Other than the amounts pre-funded through the CERBT, the City pays for retiree healthcare costs on a pay-as-you-go basis. If the Annual Employer Contribution and employee contributions for the Option A and B Plans do not fully cover the annual costs of the defined benefit plans and Option C Plan, the City withdraws funds from the CERBT to cover the difference.

In fiscal year 2018, the City's Annual Employer Contribution was $62,225. The following table provides the fiscal year 2018 contribution breakdown by fund:

General Fund	$	46,166
Nonmajor Governmental Funds		744
Sewer Utility		3,971
Water Utility		4,903
Nonmajor Enterprise Funds		6,441
Total Healthcare MOU Contributions	$	62,225

Contributions from the various City funds are recorded in the Postemployment Healthcare Benefit Plan trust fund to pay for defined benefit plan costs or in the Employee Benefits agency fund to pay for Option C plan costs (Retiree Medical Trust Plan contributions are funded separately). In fiscal year 2018, employees contributed $577 for Options A and B.

As of June 30, 2018, the fair value of the City's investments in the CERBT was approximately $112,763. This balance is net of all plan activity during fiscal year 2018, including net annual investment earnings and administrative expenses amounting to approximately $7,385 and $104, respectively.

The following table summarizes the sources used to satisfy fiscal year 2018 pay-as-you-go costs of the defined benefit plans, including a portion of the Annual Employer Contribution, Option A and B contributions from employees and a withdrawal from the CERBT:

Annual Employer Contribution [1]	$	30,380
Employee Contributions - Options A&B		577
CERBT Withdrawal		10,403
Total Defined Benefit Pay-as-you-go Costs [2]	$	41,360

[1] The remaining $31,845 of the total $62,225 Annual Employer Contribution is used for Option C Plan costs, which is a defined contribution plan.

[2] Includes administrative costs of $584.

c. Net OPEB Liability

The City's net OPEB liability was measured as of June 30, 2017 and the total OPEB used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2016 that was rolled forward to determine the June 30, 2017 total OPEB liability, based on the following actuarial methods and assumptions:

Description	June 30, 2017
Actuarial Cost Method	Entry Age Normal, Level Percent of Pay
Amortization Method/Period	Closed 20 Year Period
Discount Rate	6.73%
Inflation	2.75%
Salary Increases	3.05%
Healthcare Cost Trend Rates	8.0% pre-65 and 5.3% post-65 initial trend rates for fiscal year 2017. Decreasing 0.5% per year pre-65 and 0.2% per year post-65 until ultimate is reached in fiscal year 2024 pre-65 and fiscal year 2021 post-65.
Mortality	The base mortality rates are based on an experience study performed for SDCERS in June 2011. These rates are projected on a fully generational basis using Scale BB to reflect more recently published information about future mortality improvement.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing costs between the City and plan members through June 30, 2017. Additionally, actuarial calculations reflect a long-term perspective and include methods and assumptions that are designed to reduce short-term volatility of actuarial accrued liabilities and the relative value of plan assets. The City has relied on the work of the City's actuary to determine the City's net OPEB Liability, and considers the underlying assumptions used by the actuary to be reasonable.

To determine the OPEB Plan's projected fiduciary net position, the City's actuary has assumed that the City will continue to contribute to the OPEB Plan at the current rates defined in the Healthcare MOU until additional funding for the defined benefits valued in the actuarial report is no longer needed. At this point the projected City contribution will be reduced to the projected contribution required for Option C participants.

d. Long-Term Expected Rate of Return

The valuation uses a discount rate of 6.73% per year, net of investment expenses and including inflation. This is the long-term rate of return assumption on plan assets. This rate is based on the general inflation rate and expected real rate of return required for CalPERS reporting for use by employers who elect certain investment strategies as participants in CERBT. The target allocation and best estimates for long-term expected real rates of return for each major asset class, as of the June 30, 2017 measurement date, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Real Rate of Return
Public Equity	40.0%	5.71%
Fixed Income	39.0%	2.4%
REITs	8.0%	7.88%
TIPS	10.0%	2.25%
Commodities	3.0%	4.95%
Total	100.0%	

Source: CERBT

e. Changes in the Net OPEB Liability

The following table shows the changes in the Net OPEB Liability as of the measurement date of June 30, 2017, based on the actuarial information provided to the City. The OPEB Plan's Fiduciary Net Position (FNP) as a percentage of the Total OPEB Liability is 17.39%.

	Increase/Decrease		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2016	$ 666,671	$ 116,590	$ 550,081
Changes for the Year:			
Service Cost	1,237	—	1,237
Interest	43,617	—	43,617
Differences between Expected and Actual Experience	(4,915)	—	(4,915)
Changes in Assumptions	—	—	—
Contributions - Employer	—	30,326	(30,326)
Contributions - Employee	—	719	(719)
Net Investment Income	—	8,590	(8,590)
Benefit Payments	(40,280)	(40,280)	—
Administrative Expense	—	(59)	59
Net Changes	(341)	(704)	363
Balances at June 30, 2017	$ 666,330	$ 115,886	$ 550,444

The required schedule of changes in the net OPEB liability and related ratios immediately following the notes to the financial statements presents the beginning and ending balances of the total OPEB liability, the plan fiduciary net position available for OPEB benefits, and the net OPEB liability, as well as the itemized changes in those amounts during the fiscal year. The schedule also reports a ratio of plan fiduciary net position as a percentage of the total OPEB liability, the payroll amount for current employees in the plan (covered-employee payroll), and a ratio of the net OPEB liability as a percentage of the covered-employee payroll. One year of information is presented and will build to 10 years of information on a prospective basis.

The required schedule of employer contributions immediately following the notes to the financial statements presents the City's actuarially determined contribution to the OPEB Plan, the City's actual contribution, the difference between the actual and actuarially determined contributions, and a ratio of actual contributions as a percentage of covered-employee payroll.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - Pursuant to GASB 75, the following table presents the net OPEB liability of the City, calculated using the current discount rate of 6.73% as well as what it would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (5.73%)	Current Discount Rate (6.73%)	1% Increase (7.73%)
Net OPEB Liability	$ 621,715	$ 550,444	$ 490,005

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate - Pursuant to GASB 75, the following table presents the net OPEB liability of the City, calculated using the current health care cost trend rate of 8.00% as well as what it would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
	(7.00% pre-65 / 4.30% post-65 decreasing to 3.50% pre-65 / post-65)	(8.00% pre-65 / 5.3% post-65 decreasing to 4.50% pre-65 / post-65)	(9.00% pre-65 / 6.30% post-65 decreasing to 5.50% pre-65 / post-65)
Net OPEB Liability	$ 496,882	$ 550,444	$ 607,424

f. OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the City recognized OPEB expense of $31,286. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB Contributions Subsequent to Measurement Date	$ 30,380	$ —
Net Difference Between Projected and Actual Investment Earnings	—	595
Total	$ 30,380	$ 595

Pursuant to GASB 75, $30,380 reported as deferred outflows of resources related to OPEB contributions made subsequent to the measurement date of June 30, 2017, will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred inflows of resources will be recognized as OPEB expense as follows:

Year Ending June 30	Amount
2019	$ 149
2020	149
2021	149
2022	148

DEFINED CONTRIBUTION PLAN

The City provides two defined contribution plans to eligible employees as described below:

a. Option C Plan - For employees hired prior to July 1, 2005 and who elected to participate in the Option C Plan, the City provides a lump sum distribution, estimated by an actuary to yield approximately $8,500 (whole dollars) annually during the member's life expectancy after retirement. The distribution is made when the member first becomes eligible to retire, based on age and Service Credit. There is no member contribution to this plan. Retirees with 10 years of service receive 50% of the distribution, with additional City annual contributions each year thereafter until reaching 20 years. Contributions to the Option C Plan are reported in an agency fund, as the City does not administer them and simply passes through contribution amounts to the plan administrators. Option C is administered by various third parties depending on employee classification and/or membership in employee collective bargaining units. Total City contributions for the Option C Plan in fiscal year 2018 were $31,845.

b. Retiree Medical Trust Plan - For general members hired on or after July 1, 2009, the City established a trust vehicle for a defined contribution plan, which requires a mandatory employee contribution of 0.25% of gross salary with a corresponding 0.25% match by the City. Contributions to the Retiree Medical Trust Plan are reported in an agency fund, as the City does not administer them and simply passes through contribution amounts to the plan administrators. The Retiree Medical Trust Plan is administered by Voya Financial on behalf of the City. Elected and safety members are ineligible for this plan. The City and employees each contributed $435 to the Retiree Medical Trust Plan in fiscal year 2018.

c. Southern California Firefighters Benefit Trust - The City and International Association of Firefighters ("IAFF") Local 145 agreed to amend the Post-Employment Health Benefits MOU for the purpose of adding a City contribution of $25 per pay period for each active IAFF Local 145 member (except Fire Recruits) to the Southern California Firefighters Benefit Trust ("Firefighters Benefit Trust"), effective July 1, 2016. The Firefighters Benefit Trust is not managed by the City. The City contributed $591 to the Firefighters Benefit Trust in Fiscal Year 2018.

14. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Dollars in Thousands)

Interfund receivable and payable balances are the result of short-term loans between funds that are expected to be repaid during the next fiscal year, as well as amounts due for services provided. The $27,117 balance is comprised of several items, including a loan of $3,418 from the General Fund to the PFFA capital projects fund, in order to fund expenditures related to the PFFA Lease Revenue Bonds until eligible costs are reimbursed from the trustee held funds, and a loan of $4,913 from General Fund to the TOT Fund was made to cover a cash deficit. In addition, a loan was made from the General Fund to the Grants Special Revenue Fund and the Capital Grants Fund of $15,986 and $2,781, respectively, in order to cover negative cash resulting from deferred inflows of resources (unavailable grant revenue).

	Benefiting Fund (Payable)
Contributing Fund (Receivable)	Nonmajor Governmental
General Fund	$ 27,117

Interfund Working Capital Advance (WCA) balances are the result of loans between funds (recorded as advances to/from other funds) that are expected to be repaid in excess of one year. The $733 balance consists of an advance from the General Fund to Civic San Diego, mainly for administrative costs.

	Benefiting Fund (Payable)
Contributing Fund (Receivable)	Nonmajor Governmental
General Fund	$ 733

Interfund transfers result from the transfer of assets without the expectation of repayment. Transfers are most commonly used to (1) move revenues from the fund in which it is legally required to collect them into the fund which is legally required to expend them, including TOT and TransNet funds collected in said funds but legally spent within the General Fund, (2) utilize unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds, in accordance with budgetary authorizations, and (3) move tax revenues collected in the special revenue funds to capital projects and debt service funds to pay for the capital projects and debt service needs during the fiscal year. Interfund transfer balances for the year ended June 30, 2018 are as follows:

	Benefiting Fund						
Contributing Fund	General Fund	Nonmajor Governmental	Sewer Utility	Water Utility	Nonmajor Enterprise	Internal Service	Total
General Fund	$ —	$ 44,319	$ 563	$ 495	$ 556	$ 248	$ 46,181
Nonmajor Governmental	47,231	51,450	—	—	1,215	—	99,896
Sewer Utility	—	24	—	—	—	2,000	2,024
Water Utility	—	14	1,228	—	—	1,000	2,242
Nonmajor Enterprise	—	17	—	—	573	—	590
Internal Service	—	6	—	—	—	—	6
Total	$ 47,231	$ 95,830	$ 1,791	$ 495	$ 2,344	$ 3,248	$ 150,939

15. RISK MANAGEMENT (Dollars in Thousands)

The City is exposed to various risks of loss related to torts, including theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City is self-insured for general liability, workers' compensation and long-term disability (LTD) claims, and also maintains contracts with various insurance companies to manage excessive risks.

The City's Self Insurance Retention (SIR) amount for general liability is $3,000 per occurrence. Above the SIR, the City has a $2,000 individual corridor deductible (annual aggregate). The City maintains excess general liability insurance policies in collaboration with a statewide joint powers authority risk pool, the California State Association of Counties-Excess Insurance Authority (CSAC-EIA) for amounts up to $50,000 per occurrence (inclusive of the $3,000 self-insured retention for the public liability).

The City is fully self-insured for its workers' compensation and long-term disability (LTD) programs. Workers' compensation activity is reported within the General Fund. All operating funds of the City contribute an amount equal to a specified rate multiplied by the gross salaries of the fund. These payments are treated as operating expenses in the contributing funds and operating revenues in the General Fund. The Long-Term Disability Fund is reported in the Miscellaneous Internal Service Fund. Similarly, all operating departments of the City contribute an amount equal to a specified rate multiplied by the gross salaries of the fund. These payments are treated as operating expenses in the contributing funds and operating revenues in the Miscellaneous Internal Service Fund.

Estimated liabilities for general liability, workers' compensation, and long-term disability as of June 30, 2018 were determined based on the results of independent actuarial valuations and include amounts for claims incurred but not reported. Claims liabilities were calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. Non-incremental claims adjustment expenses have been included in the actuarial calculations for general liability. Estimated liabilities for general liability claims have been reported in the government-wide financial statements, Sewer Utility Fund, Water Utility Fund, and the Successor Agency Private-Purpose Trust Fund. Estimated liabilities for workers' compensation claims have been recorded in the government-wide financial statements, the Water Utility Fund, Sewer Utility Fund, Nonmajor Enterprise Funds, and Internal Service Funds. Estimated liabilities for long-term disability claims are recorded in the Miscellaneous Internal Service Fund.

A reconciliation of total liability claims for the City's general liability, workers' compensation, and long-term disability obligations, showing current and prior year activity is presented below:

	General Liability	Workers' Compensation & Long-Term Disability	Total
Balance, July 1, 2016	$ 198,362	$ 259,739	$ 458,101
Claims and Changes in Estimates	39,678	40,766	80,444
Claim Payments	(37,174)	(31,928)	(69,102)
Balance, June 30, 2017	200,866	268,577	469,443
Claims and Changes in Estimates	44,552	41,346	85,898
Claim Payments	(44,336)	(32,445)	(76,781)
Balance, June 30, 2018	$ 201,082	$ 277,478	$ 478,560

The City, in collaboration with CSAC-EIA, maintains an "All Risk" policy, which includes flood coverage for amounts up to $25,000 per occurrence under the primary policy and with access to additional excess limits. The policy is subject to a $25 deductible. Additional excess limits are available as part of the City's insurance property program through CSAC-EIA, where coverage "towers" with designated coverage limits are provided. Coverage towers are groups of properties, which are diversified based on occupancy (risk-pool members) and geographical location. The City participates in four coverage towers with dedicated coverage limits of $300,000 for "All Risk" and Flood. If tower limits are exhausted, additional coverage may be accessible by any of the towers in the risk-pool. These additional coverage limits are shared by all towers in the risk-pool and may not exceed an aggregate amount of $300,000 for "All Risk" and Flood, for all claims made by all towers during the coverage period. Limits include coverage for business interruption losses for designated leased properties for various financings. There is no sharing of limits among the City and member counties of the CSAC-EIA pool, unless the City and member counties are mutually subject to losses from the same occurrence. Limits and coverage may be adjusted periodically in response to the requirements of bond financed projects, grant requirements, acquisitions, and in response to changes in the insurance marketplace.

CSAC-EIA's insurance property program structure of dedicated tower limits also applies to earthquake coverage. The City participates in four coverage towers. Earthquake coverage is provided for designated buildings/structures in the amount of $100,000 under primary policies per tower. If tower limits are exhausted, additional coverage may be accessible by any of the towers in the risk pool. The additional coverage limits are shared by all towers in the risk-pool and may not exceed an aggregate amount of $440,000 for all claims made by all towers during the coverage period, including coverage for business interruption caused by earthquake at certain designated locations. Earthquake coverage is subject to a deductible of 2% of total insured values per unit per occurrence, subject to a $100 minimum. The City's earthquake coverage is purchased jointly and limits are shared with the member counties in the CSAC-EIA pool. Due to the potential for geographically concentrated earthquake losses, the CSAC-EIA pool is geographically diverse to minimize any potential sharing of coverage in the case of an individual earthquake occurrence. Depending upon the availability and affordability of earthquake insurance, the City may elect not to purchase such coverage in the future, or the City may elect to increase the deductible or reduce the coverage from present levels.

The City is a public agency subject to liability for the dishonest and negligent acts or omissions of its officers and employees acting within the scope of their duty ("employee dishonesty" and "faithful performance"). The City participates in the joint purchase of insurance covering employee dishonesty and faithful performance through the CSAC-EIA pool. Coverage is provided in the amount of $15,000 per occurrence, subject to a $25 deductible.

During fiscal year 2018, there were no significant reductions in insurance coverage from the prior year. For each of the past three fiscal years, settlements which were covered by insurance have not exceeded the City's insurance coverage limits. However, some losses may not be covered by insurance and would need to be funded by the City. The City can give no assurance that particular losses will be covered or that coverage providers will be able to pay recorded losses. See Note 18 for additional information.

16. FUND BALANCE / NET POSITION DEFICITS (Dollars in Thousands)

The Capital Grants Capital Projects Fund has a fund balance deficit of $2,209, which represents deferred inflows of resources related to grant revenue which did not meet the City's availability criteria.

The implementation of GASB 68 and GASB 75 resulted in a significant impact to the net position of most proprietary funds. The Development Services Fund has a net position deficit of $67,973. The Central Stores and Publishing Services Internal Service Funds have net position deficits of $2,951 and $1,221, respectively. These deficits are primarily due to the Net Pension Liability (NPL) and Net Other Postemployment Benefits Liability (OPEB) expected to be repaid over the long-term. Generally, the NPL is reduced annually as the City continues to fully pay its ADC for the Pension Plan, which includes amortized payments of the unfunded portion of the accrued liability (see Note 12). Similarly, the City continues to pay the annual defined benefit OPEB allocation per the authorized agreement (see Note 13). The cost recovery rates for these funds are developed to fully fund the respective Pension ADC and OPEB obligation on a yearly basis. As the City continues to fully pay its ADC for the Pension Plan, the net position deficit of these funds will be corrected over the long-term.

The Private-Purpose Trust Fund (Successor Agency) has a net position deficit of $482,361, which represents unfunded liabilities of the former RDA, primarily related to long-term debt obligations. On an annual basis, the Successor Agency submits funding requests to the County of San Diego, through Recognized Obligation Payment Schedules (ROPS). Funding is then allocated to the Successor Agency from the County's Redevelopment Property Tax Trust Fund (RPTTF) to satisfy obligations of the corresponding twelve month period. As obligations are funded twice annually and liabilities are paid, the net position deficit will continue to decrease. Once all the obligations of the Successor Agency are fully satisfied, the deficit will be eliminated.

17. COMMITMENTS (Dollars in Thousands)

Encumbrances

The City uses encumbrances to control expenditures for the year which generate contractual and regulatory commitments that will result in expenses/expenditures in future years. Encumbrances represent commitments related to contracts not fully performed and purchase orders not yet filled. It is the City's policy to pay for operating encumbrances remaining at the end of the fiscal year from the following year's appropriations, not from fund balance. Encumbrances related to capital projects are funded through the current year appropriated budget, which carries over to the following fiscal year. Operating and capital contractual commitments for which funds have been encumbered as of June 30, 2018 are reflected in the table below.

General Fund	$ 29,866
Nonmajor Governmental Funds	261,773
Sewer Utility	90,410
Water Utility	201,882
Nonmajor Enterprise Funds	67,534
Total Contractual Commitments	$ 651,465

California Regional Water Quality Control Board Administrative Proceeding - Municipal Storm Water Permit

The State Water Resources Control Board (SWRCB) is the State agency charged with implementing the federal Clean Water Act (Clean Water Act). The SWRCB delegates its authority to nine regional boards, who implement the Clean Water Act and the California Water Code in their respective regions. The Regional Water Quality Control Board San Diego Region (RWQCB) has jurisdiction over the San Diego area. The RWQCB issues the Municipal Storm Water National Pollutant Discharge Elimination System Permit (Municipal Permit) as required by the Clean Water Act. Under the Municipal Permit, the City must comply with water quality requirements established by the RWQCB by maintaining and operating storm drain systems, eliminating dry weather flows and reducing pollutants in storm water runoff. The RWQCB has established specific numeric limitations on the maximum amount of pollutants that can be received by some of the City's six watersheds. The RWQCB periodically conducts water quality tests to determine if the receiving waters are meeting water quality requirements.

The Municipal Permit also requires the City to develop Water Quality Improvement Plans (Improvement Plans) to identify and address the highest priority water quality problems, including all of the City's existing storm water quality regulatory deadlines between fiscal year 2012 and fiscal year 2035 for each of the six watersheds within the City's jurisdiction. These Improvement Plans were reviewed and accepted by the RWQCB in March 2016. In November 2018, the City updated its estimate for implementation costs for the period between fiscal years 2019-2035 as follows:

Operating Cost Estimate	$ 1,249,265
Capital Cost Estimate	1,879,160
Total	$ 3,128,425

These estimates could be higher or lower depending on numerous factors, including but not limited to, changes in regulatory standards; science and technology advancements; and new impairments that could be identified by the RWQCB as future water quality tests are conducted. In June 2017 the RWQCB adopted Order No. R9-2017-0077 which directs Municipal Permit holders to control trash discharges to water bodies (State Trash Policy). The State Trash Policy will be included in the next Municipal Permit reissuance, which is anticipated to be adopted in fiscal year 2020, and estimated funding needs to comply range from a combined total of $12,000

to $17,000 over 10 years beginning in fiscal year 2020. Most of these compliance activities represent pollution prevention or control obligations with respect to current storm water operations and are not subject to accrual in the basic financial statements.

The City Storm Water Division's estimated costs to implement the Improvement Plans are higher compared to current spending levels and projected budget allocations. Estimated operating expenses budgeted for fiscal year 2019 are approximately $52,100. The estimated allocated Capital Improvement Program budget for fiscal year 2019 is approximately $39,424, which is funded primarily with General Fund revenues, TransNet, development impact fees, and debt financing proceeds. The City's storm water fees of 95 cents per month per residence generated approximately $5,809 in fiscal year 2018 and cover only a small portion of the City's annual storm water expenses.

The City is employing a multi-faceted strategy to comply with Municipal Permit requirements and reduce estimated costs to implement the Improvement Plans. First, the City is continuing to work collaboratively with the RWQCB to evaluate, and where justified with scientific data, amend regulations to reduce or eliminate certain program elements that are not needed to meet water quality targets. The City is also evaluating the possibility of extending compliance schedules to reduce annual funding needs through the U.S. Environmental Protection Agency's (USEPA) Integrated Planning Framework (IPF) program. Extending the compliance schedules may likely increase the costs of implementing the Improvement Plans. The IPF program provides a framework for municipalities to extend compliance schedules and focus on the highest priority water quality issues when Clean Water Act funding need obligations exceed specified ratepayer affordability thresholds. The RWQCB retains discretion whether to allow municipalities to utilize the IPF program, therefore the City is actively seeking RWQCB approval to incorporate the IPF program into the next five-year Municipal Permit issuance expected to be adopted during summer 2019. Subsequent to adoption of the Municipal Permit, the City must develop, submit, and obtain RWQCB approval of an Integrated Plan before any compliance schedules can be extended. Second, the City is pursuing a combination of alternative funding and financing strategies, such as grants and State Revolving Fund loans. Third, the City continues to implement pilot studies, such as studies of street sweeping, storm drain cleaning and business inspection programs, to identify cost-saving improvements to operations. Absent an increase in storm water fees or other new funding sources discussed above, the unfunded or increased compliance funding needs would continue to be paid from the General Fund.

The Municipal Permit imposes numerous obligations and requirements on the City, including requirements to ensure that the City's various waterbodies, and the storm drains discharging into them, do not contain pollutants in excess of USEPA and State-mandated numeric limits. These numeric limits, referred to as "receiving water limitations" are enforced without regard to fault, and the City can be held liable if samples collected in waterbodies downstream of any City storm drain outfalls exhibit exceedances of these receiving water limitations. Both the RWQCB and citizen stakeholders can file enforcement actions and lawsuits for violations of the receiving water limitations, with penalties for state lawsuits not to exceed $10 per violation, per day, and penalties for federal lawsuits not to exceed $54 per violation per day. Additionally, the Municipal Permit contains several regulatory deadlines through fiscal year 2035. The City has met or is projected to meet the first three regulatory deadlines, but is currently not projected to meet certain regulatory deadlines related to the Bacteria Total Maximum Daily Load (TMDL) in fiscal year 2021 due to insufficient funding and the time requirements to implement capital projects. Additionally, the City will not be able to meet interim deadlines for the Chollas Creek TMDL while the SWRCB and USEPA reviews revisions to critical calculations related to compliance. These revisions were approved by the RWQCB in February 2017, however they must also be approved by the SWRCB, the California Office of Administrative Law (CAOAL), and the USEPA before they can be fully adopted. It is anticipated that the SWRCB will adopt these revisions by April 2019, after which they will be routed to the CAOAL to confirm that all public noticing requirements were met, and lastly to the USEPA for final approval (anticipated July 2019). The City is projected to meet the Chollas Creek TMDL interim compliance deadlines given these revisions, however the City will be exposed to litigation from third parties during the time period between the first deadline (October 22, 2018) and final approval of the revisions (anticipated March 2019). As discussed above, the City is currently pursuing a multi-faceted strategy to meet these regulatory deadlines that includes seeking regulatory adjustments, pursuing alternative funding sources, and reducing funding needs through program improvements. If the City does not meet these required storm water regulations by the compliance deadlines, it is possible that the RWQCB could levy fines and penalties on the City of $10 per day per violation and the USEPA could levy penalties of up to $52 per day per violation. Each storm drain outfall that flows to a receiving water body may be assessed as a

separate violation and therefore there could be more than one violation on any particular day. Additionally, should the City fall out of compliance, it could be exposed to litigation from third parties.

California Department of Public Health Compliance Order

In 1997, the State of California Department of Public Health (DDW) issued a Compliance Order requiring the City to correct operational deficiencies and begin necessary capital improvements related to the City's water system. The Compliance Order was last amended in May of 2007 and included additional items that were not in the original Compliance Order. As amended, the Compliance Order will remain in effect until the projects and pipeline replacement requirements are completed.

The Public Utility Department expects to award the remaining water system projects by calendar year 2021, which will fulfill the final requirements of the Compliance Order. For fiscal years 2019 through 2021, the City estimates Compliance Order project costs to total approximately $56,900. The Public Utilities Department expects to fund these commitments through a combination of existing net position, present and future system revenues, and financing proceeds secured by system revenues.

Agreement Relative to Modified Permit for the Point Loma Wastewater Treatment

In June 2010, the City received a renewal of the Modified Permit for the Point Loma Wastewater Treatment Plant (Pt. Loma) and agreed to identify opportunities to maximize recycling wastewater for potable and non-potable uses. That permit expired in July 2015 and was administratively continued while the regulatory agencies completed work on the renewal application. In August 2017, the USEPA, in conjunction with the RWQCB, issued the final approval renewing the Modified Permit and the waiver from secondary treatment standards for another 5 years. The permit term took effect October 1, 2017 and expires on September 30, 2022.

The Modified Permit renewal was based on the compliance with the Clean Water Act requirements, progress of the Pure Water San Diego Program (Program), and a reduction in permitted emissions from the previous permit level. The Program is designed to reduce discharge into the ocean from Pt. Loma while providing a new local source of potable water for the City. The renewal recognized the value of the Program in the early phases of implementation, and it is anticipated that Program continuance can be reflected in future permits. The first phase of the Program is estimated to cost approximately $1,477,000 of which, approximately $612,000 will be allocated to the Sewer Utility Fund, and approximately $865,000 will be allocated to the Water Utility Fund. The first phase of the Program is anticipated to be operational by early calendar year 2024.

18. CONTINGENCIES (Dollars in Thousands)

FEDERAL AND STATE GRANTS

The City recognizes as revenue grant monies received as reimbursement for costs incurred related to certain Federal and State programs it administers. Although the City's Federal grant programs are audited in accordance with the requirements of the Federal Single Audit Act of 1984, the Single Audit Act Amendments of 1996, and the related U.S. Office of Management and Budget Circular A-133 and 2 CFR 200 Uniform Guidance as applicable based on the date of the award, these programs may be subject to financial and compliance audits by the reimbursing agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The Single Audit for fiscal year 2018 is in process.

LITIGATION AND REGULATORY ACTIONS

The City is a defendant in lawsuits pertaining to material matters, including claims asserted, which are incidental to performing routine governmental and other functions. This litigation includes, but is not limited to: actions commenced and claims asserted against the City arising out of alleged torts; alleged breaches of contracts; alleged violations of law; and condemnation proceedings. The City received 2,121 notices of claims in fiscal year 2018.

As of June 30, 2018, the City estimates the amount of tort and non-tort liabilities to be $201,082, which has been reported in the government-wide statement of net position, the proprietary funds financial statements, and the fiduciary funds financial statements. The liability was actuarially determined and was supplemented by information provided by the City Attorney with respect to certain large individual claims and proceedings. The liability recorded is the City's best estimate based on information available as of the issuance of this report. The City Attorney also estimates that in the event of an adverse ruling, certain pending lawsuits and claims have a reasonable possibility of resulting in an additional liability, in the aggregate, ranging from $0 to $213,382. However, the potential liabilities related to these claims are not individually accrued because it is not probable that a loss has been incurred as of June 30, 2018.

Additional information on litigation regarding the Pension Plan can be found in the introductory section of Note 12.

POLLUTION REMEDIATION OBLIGATIONS

A pollution remediation obligation is an obligation to address the current or potential detrimental effects of existing pollution by participating in remediation activities. The following items are contingent matters concerning the City. More information regarding Commitments of the City may be found in the preceding Note 17.

Los Peñasquitos Lagoon Sedimentation Total Maximum Daily Load (TMDL)

The City is a listed responsible party regarding the sedimentation of Los Peñasquitos Lagoon. This TMDL was adopted by the State of California in July 2014. The TMDL included requirements for sediment reductions in the Los Peñasquitos Watershed and the establishment of 84 acres of new salt marsh habitat in the Los Peñasquitos Lagoon by July 2034. The habitat restoration requirements associated with the establishment of 84 acres of salt marsh habitat represent pollution remediation obligations; however any estimated costs cannot be reasonably determined at this time pending the development of the final concept design for the restoration of Los Peñasquitos Lagoon.

Chollas Creek Mouth Sediment Investigative Order

On October 26, 2015, the Regional Water Quality Control Board (RWQCB) released the Chollas Creek Mouth Sediment Investigative Order (SIO) R9-2015-0058. The order names the City as one of the responsible parties to determine if sediment contamination at the

mouth of Chollas Creek in San Diego Bay and potential sediment contamination of the tidal prism of Chollas Creek has occurred. The responsible parties submitted a Phase I monitoring work plan to the Regional Board to evaluate the current nature and extent of impairment related to contaminated sediments in the mouth of Chollas Creek and the Chollas Creek tidally influenced area. Source identification studies of any potential sediment contamination within the investigation area were conducted. The Order required the development of the Phase 2 work plan, which was submitted on August 30, 2017, and monitoring was performed to identify the sources of impairment found during Phase 1. The final monitoring report was submitted to the RWQCB on March 15, 2018, and their final determination is pending as of this report date. Costs of remediation cannot be estimated until the RWQCB determines if there are problems, and if so, the cleanup levels will be negotiated with and ultimately imposed by the RWQCB. In addition, the responsible parties will then need to negotiate the allocation of clean up responsibilities.

Boat Channel at Naval Training Center (NTC)

The old Naval Training Center (NTC) was closed and, with the exception of the Boat Channel, the property was conveyed to the City under the Base Realignment and Closure (BRAC) process that culminated in a Memorandum of Agreement (MOA) between the City and the U.S. government (Navy) in 2000. NTC was redeveloped as Liberty Station by the Corky McMillin Companies. The transfer of the NTC Boat Channel was excluded from the conveyance because it was polluted. The MOA requires the Navy to remediate the Boat Channel and obtain appropriate regulatory site closure prior to conveyance. The Navy has completed a limited clean-up of the Boat Channel. It is in the process of finalizing reports and seeking RWQCB approval of the clean-up. The City believes the clean-up is deficient for a number of reasons including (i) that the original site investigation and characterization were inadequate, (ii) the remediation did not address the entirety of the Boat Channel property, and (iii) the remediation did not clean up the Boat Channel to current regulatory standards. The City has repeatedly made these objections known to the Navy and the RWQCB. The Navy claims the City is partly responsible for discharges which polluted the channel and therefore is responsible to pay a portion of the remediation costs. The City denies the Navy's claim for a number of reasons, including the terms of the MOA and the fact that military facilities (both NTC and the Marine Corps Recruit Depot) surrounded the channel for decades, and most if not all pollutant discharges were Navy-originated. The City cannot estimate its apportioned responsibility for such remediation costs, if any, at this time.

San Diego Bay's Laurel Hawthorne Central and East Embayment Draft Sediment Investigative Orders R9-2018-033,34,35

On July 25, 2018, the RWQCB released three draft Investigative Orders (IOs) for the assessment of the Laurel Hawthorne Embayment (LHE). The City was named on one of the three IOs as a responsible party to determine the extent and magnitude of sediment contamination in LHE at the terminus of the City's 84-inch outfall. It is anticipated the final IO will be issued in the winter of 2019 requiring the development of a draft work plan for both land and water investigations is due within 180 days of final IO issuance. Costs of the remediation cannot be estimated until the investigations are completed to determine if there are problems, and if so, the cleanup levels will be negotiated with and ultimately imposed by the RWQCB. In addition, the responsible parties will then need to negotiate the allocation of clean up responsibilities.

San Diego Bay Adjacent to Tenth Avenue Marine Terminal Draft Sediment Investigative Order R9-2017-0081 and
San Diego Bay Adjacent to Continental Maritime Draft Sediment Investigative Order R9-2017-0082

On August 4, 2017, the RWQCB issued the final IO requiring the responsible parties to submit a Sediment Chemistry Assessment Work Plan in 180 days evaluating the current nature and extent of impairment. On January 31, 2018, the responsible parties submitted the work plans for both land and water that were accepted by the RWQCB. The waterside monitoring occurred in July 2018, and the landside monitoring occurred in the Fall of 2018 and will occur in the Spring of 2019. The monitoring reports are due to the RWQCB within 180 days after the date of the last scheduled work plan activity. Costs of remediation cannot be estimated until the investigations are completed to determine if there are problems, and if so, the cleanup levels will be negotiated with and ultimately imposed by the RWQCB. In addition, the responsible parties will then need to negotiate the allocation of clean up responsibilities.

San Diego River Draft Investigative Order, R9-2018-0021

On May 21, 2018, the RWQCB released the draft IO R9-2018-0021 that named the City as one of ten responsible parties to identify and quantify the relative contributions of human fecal material in discharges to the San Diego River, how it is transported, and improvements to implementation procedures. Costs to improve water quality cannot be estimated until the investigation is completed to determine if there are problems, and if so, the cleanup efforts will be negotiated with and ultimately imposed by the RWQCB.

19. DEBT WITHOUT GOVERNMENT COMMITMENT (Dollars in Thousands)

The City and/or the former RDA of the City have authorized the issuance of certain Special Assessment/Special Tax Bonds, Parking Revenue Bonds, Tax Allocation Bonds, and Loans. The City has no legal obligation to make payment on these bonds or loans and has not pledged any City assets as a guarantee to the bondholders/lenders. These bonds and loans do not constitute indebtedness of the City. The bonds are payable solely from payments made on and secured by a pledge of the acquired funds, other monies held for the benefit of the bondholders pursuant to the bond indentures, property liens and other loans. Accordingly, no liability has been recorded in the City's government-wide statement of net position. Long-term liabilities of the former RDA are reported in the Successor Agency Private-Purpose Trust Fund.

The following sections describe the outstanding debt without government commitment:

a. Special Assessment/Special Tax Bonds

The City, on behalf of the Special Assessment Districts (AD) and the Community Facilities Districts (CFD), have issued debt to finance infrastructure improvements and facilities necessary to facilitate development of the properties within the respective districts located in the City. The special assessment and special tax bonds are secured by special assessment and special tax liens, respectively, on the real property within the districts and are not direct liabilities of the City. The City has no fiscal obligation beyond the balances in designated AD and CFD funds for any related bond payments. If delinquencies occur beyond the amounts held in the reserve funds created from bond proceeds, the City has no duty to pay the delinquency out of any available funds of the City. The City acts solely as the agent in the collection and remittance of the assessments and special taxes for these ADs and CFDs and initiates foreclosure proceedings as required under the bond covenants.

As of June 30, 2018, the status of each of the special assessment/special tax bonds issued is as follows:

	Original Amount	Balance Outstanding June 30, 2018
Community Facilities District No.2 (Santaluz), Improvement Area No. 1, Series 2011 A	$ 51,680	$ 37,915
Community Facilities District No.1 (Miramar Ranch North), Series 2012	24,795	10,160
Community Facilities District No.3 (Liberty Station), Series 2013	15,770	13,820
Assessment District No.4096 (Piper Ranch), Issued July 2013	3,830	3,295
Community Facilities District No.2 (Santaluz), Improvement Area No. 3, Series 2015	3,380	3,015
Community Facilities District No.2 (Santaluz), Improvement Area No. 4, Series 2015	6,215	5,740
Community Facilities District No.4 (Black Mountain Ranch Villages), Series 2016	16,435	15,790
Total Special Assessment / Special Tax Bonds	$ 122,105	$ 89,735

b. Parking Revenue and Tax Allocation Bonds

The former RDA issued parking revenue bonds for the purpose of financing certain public parking facilities and tax allocation bonds in order to finance or refinance redevelopment activities. The parking revenue and tax allocation bonds are secured by certain pledged revenues of the former RDA and are not direct liabilities of the City. In no event will the bonds be payable out of any funds or properties other than those of the Successor Agency or former RDA, along with any monies held by the Trustee in the funds and accounts established under the Indentures, and any amounts, including proceeds of the sale of the bonds, held in any fund or account established pursuant to the Indentures.

As of June 30, 2018, the status of each of the parking revenue and tax allocation bonds issued is as follows:

	Original Amount	Balance Outstanding June 30, 2018
Revenue Bonds:		
Centre City Parking, Series 1999 A	$ 12,105	$ 5,275
Centre City Parking, Series 2003 B	20,515	6,100
Total Revenue Bonds	32,620	11,375
Tax Allocation Bonds:		
Centre City Redevelopment Project, Series 2001 A	58,425	11,181
Successor Agency Redevelopment Refunding, Series 2016 A	145,080	133,740
Successor Agency Redevelopment Refunding, Series 2016 B	30,105	27,445
Successor Agency Redevelopment Refunding, Series 2017 A	64,565	64,565
Successor Agency Redevelopment Refunding, Series 2017 B	155,400	155,400
Total Tax Allocation Bonds	453,575	392,331
Total Bonds	$ 486,195	$ 403,706
Accreted Interest Payable on Tax Allocation Bonds:		
Centre City Redevelopment Project, Series 2001 A		$ 16,221

c. Loans Payable

The former RDA issued loans for the purpose of financing redevelopment activities. The loans are secured by certain pledged revenues of the former RDA. Senate Bill 107 Local Government Section 34173 (h)(1) states "Repayment of loans created under this subdivision shall be applied first to principal, and second interest, and shall be subordinate to other approved enforceable obligations. As of June 30, 2018, the remaining balance of $10,696 of which $3,689 was for interest was fully paid off on the Naval Training Center Loan. Additional principal payment of $9,156 was paid towards the Naval Training Center Section 108 Loan and $10,000 towards Miscellaneous Loans.

	Original Amount	Balance Outstanding June 30, 2018
Loans Payable:		
City of San Diego - Naval Training Center Section 108, Dated June 2004	$ 5,910	$ 1,608
City of San Diego - HUD Settlement Agreement, Various Dates	45,311	10,768
City of San Diego - Miscellaneous, Various Dates	45,761	27,261
City of San Diego - Naval Training Center, Dated April 2002	8,300	—
Total Loans Payable	$ 105,282	$ 39,637
Accrued Interest Payable:		
City San Diego - Naval Training Center Section 108	$ 1,899	$ 1,899
City San Diego - HUD Settlement Agreement	33,476	33,204
City of San Diego - Miscellaneous	105,733	105,733
City of San Diego - Naval Training Center	3,689	—
Total Accrued Interest Payable	$ 144,797	$ 140,836

d. Amortization Requirements

The annual requirements to amortize the private-purpose trust fund long-term debt outstanding as of June 30, 2018, including interest payments to maturity, are as follows:

Year Ending June 30	Loans Payable		Revenue Bonds	
	Principal	Interest	Principal	Interest
2019	$ 21,271	$ 16,801	$ 1,545	$ 614
2020	—	—	1,635	524
2021	—	—	1,640	431
2022	—	—	1,730	336
2023	—	—	1,005	256
2024-2028	—	—	3,820	392
2029-2033	—	—	—	—
Unscheduled [1]	18,366	124,035	—	—
Total	$ 39,637	$ 140,836	$ 11,375	$ 2,553

Year Ending June 30	Tax Allocation Bonds		
	Principal	Unaccreted Appreciation [2]	Interest
2019	$ 28,562	$ 918	$ 15,040
2020	29,576	2,159	14,215
2021	28,078	2,297	13,262
2022	24,017	2,443	12,300
2023	22,084	2,576	11,386
2024-2028	114,964	13,716	42,494
2029-2033	73,175	—	22,906
2034-2038	42,180	—	10,777
2039-2043	29,695	—	1,892
Total	392,331	24,109	144,272
Add: Accreted Appreciation through June 30, 2018	16,221	—	—
Total	$ 408,552	$ 24,109	$ 144,272

[1] The loans payable to the City in the amount of $18,366 and the associated accrued interest of $124,035 are payable dependent on each annual approved Recognized Obligation Payment

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

e. Change in Long-Term Liabilities

The following is a summary of changes in long-term liabilities reported in the private-purpose trust fund for the year ended June 30, 2018. The effects of bond accretion, bond premiums and discounts are reflected as adjustments to long-term liabilities.

	Beginning Balance	Additions	Reductions	Ending Balance
Liability Claims	$ 68,907	$ —	$ (610)	$ 68,297
Loans Payable	66,303	—	(26,666)	39,637
Revenue Bonds	12,840	—	(1,465)	11,375
Unamortized Bond Premiums and Discounts	(47)	—	5	(42)
Net Revenue Bonds	12,793	—	(1,460)	11,333
Tax Allocation Bonds	407,007	—	(14,676)	392,331
Interest Accretion	15,614	1,456	(849)	16,221
Balance with Accretion	422,621	1,456	(15,525)	408,552
Unamortized Bond Premiums and Discounts	29,420	175	(2,015)	27,580
Net Tax Allocation Bonds	452,041	1,631	(17,540)	436,132
Interest Accrued on City Loans	144,525	—	(3,689)	140,836
Total	$ 744,569	$ 1,631	$ (49,965)	$ 696,235

f. Defeased Debt

On September 1, 2017, the Centre City Series 2008A bonds were redeemed and on October 1, 2017, the PFFA Series 2007A&B bonds were redeemed. As of June 30, 2018, the principal amounts payable from escrow funds established for refunding bonds are as follows:

Successor Agency Bonds Refunded in 2017 Escrow Accounts (February 9, 2017)	Amount	Redemption Date
North Park Redevelopment Project Subordinate Tax Allocation Bonds, 2009 Series A	$ 13,930	November 1, 2019
City Heights Redevelopment Project Tax Allocation Bonds, 2010 Series A (Tax Exempt)	5,635	September 1, 2020
City Heights Redevelopment Project Tax Allocation Bonds, 2010 Series B (Taxable)	9,590	September 1, 2020
Crossroads Redevelopment Project Tax Allocation Bonds, 2010 Series B (Taxable)	4,540	September 1, 2020
Naval Training Center Redevelopment Project Tax Allocation Bonds, 2010 Series A	17,280	September 1, 2020
San Ysidro Redevelopment Project Tax Allocation Bonds, 2010 Series A (Tax Exempt)	2,900	September 1, 2020
San Ysidro Redevelopment Project Tax Allocation Bonds, 2010 Series B (Taxable)	4,275	September 1, 2020
Housing Set-Aside Tax Allocation Bonds, 2010 Series A (Taxable)	55,930	September 1, 2020
Total Tax Allocation Financing Bonds	$ 114,080	

20. CLOSURE AND POSTCLOSURE CARE COST (Dollars in Thousands)

State and federal laws and regulations require that the City place a final cover on its Miramar Landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. In addition, federal and state regulations require that the City set aside funds annually to fund closure costs and to demonstrate financial resources sufficient to meet certain corrective actions.

Closure and Postclosure Care Liability

The City is currently permitted by the State to keep the landfill open through fiscal year 2025. However, based on recent changes in recycling policies and compaction methods, the City projects the life expectancy of the landfill will be extended through 2030. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each financial statement date.

The $53,003 reported as landfill closure and postclosure care liability as of June 30, 2018 represents the cumulative amount reported to date based on the use of 87% of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and postclosure care of $7,693 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care as of June 30, 2018. These cost estimates are subject to changes resulting from inflation, deflation, technology, or changes in applicable laws or regulations.

Funding Requirements

As of June 30, 2018, the City is in compliance with state and federal laws and regulations requiring annual contributions to finance closure costs. At the end of fiscal year 2018, cash or equity in pooled cash and investments of $30,668 was held for this purpose. The closure/postclosure care liability amount of $53,003 reported in the Environmental Services Enterprise Fund includes $26,719 for closure costs. The amount by which the restricted cash exceeds the closure liability, or $3,949, is included as a component of restricted net position in the Environmental Services Enterprise Fund. The City has pledged its greenery recycling revenues as financial assurance for postclosure maintenance costs and is not required to advance fund postclosure care costs.

As of June 30, 2018, the City is in compliance with state and federal laws and regulations to demonstrate financial resources sufficient to conduct corrective action for all known or reasonably foreseeable releases from the Miramar Landfill site, meeting the cost estimate approved by the San Diego Regional Water Quality Control Board. At the end of fiscal year 2018, cash or equity in pooled cash and investments of $1,606 was held for this purpose. This amount is reported as restricted net position in the Environmental Services Fund.

For both closure/postclosure care and corrective action, the City expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional closure/postclosure care requirements are imposed (due to changes in technology or applicable laws or regulations, for example), these costs may need to be paid by charges to future landfill users or from other sources. At the end of fiscal year 2018, accrued interest of $143 is included as a component of restricted net position in the Environmental Services Fund.

21. OPERATING AGREEMENTS (Dollars in Thousands)

City of San Diego and Padres L.P.

On February 1, 2000, the City entered into a Joint Use and Management Agreement (Agreement) with the San Diego Padres baseball team (Padres) governing the rights and duties of the City and Padres with respect to the use and operation of the Petco Park Ballpark Facility (Facility). The Padres own 30% and the City owns 70% of the Facility, which is shown as a capital asset on the City's statement of net position. The occupancy agreement expires on December 14, 2033 and includes the right of the Padres to exercise two five-year extensions. Upon expiration, the Padres' ownership interest will automatically transfer to the City. Under the terms of the Agreement, the Padres are responsible for Facility operation and management, including maintenance, repairs and security required to preserve its condition. The City is responsible for paying certain expenses associated with the operation and maintenance of the Facility, subject to certain inflationary adjustments. In fiscal year 2018, the City paid approximately $4,589 related to the operation and maintenance of the Facility.

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22. FUND BALANCES (Dollars in Thousands)

The following table provides additional detail regarding the City's governmental fund balances:

	General Fund	Other Governmental Funds	Total Governmental Funds
NONSPENDABLE			
Legally/Contractually Required to be Maintained Intact	$ —	$ 17,836	$ 17,836
Not in Spendable Form	863	206	1,069
Total Nonspendable	863	18,042	18,905
RESTRICTED			
Low and Moderate Income Housing	—	338,825	338,825
Facilities Benefit Assessments	—	267,244	267,244
Grants [1]	243	179,469	179,712
Underground Surcharge	—	174,094	174,094
Impact Fees	—	147,939	147,939
Capital Outlay - Unbudgeted [1]	—	116,897	116,897
Emergency Reserve	96,700	—	96,700
Capital Outlay - Budgeted	—	84,609	84,609
Developer Contributions	—	37,521	37,521
Tobbacco Settlement Revenue Funding Corporation	—	35,700	35,700
Parking Meter Districts	—	34,757	34,757
Tourism Marketing Districts	—	34,328	34,328
Maintenance Assessment Districts	—	22,726	22,726
TransNet	—	21,960	21,960
Special Gas Tax Street Improvement	12,057	—	12,057
Environmental Growth	9,392	—	9,392
Traffic Congestion Relief (Prop 42)	—	6,964	6,964
Fiesta Island Sludge Mitigation	—	6,824	6,824
Civic San Diego	—	5,723	5,723
Jane Camerson Estate	—	5,721	5,721
Library Donations	—	5,637	5,637
Infrastructure Fund (Prop H)	5,351	—	5,351
Parks & Recreation Districts	—	4,417	4,417
Citizens Option for Public Safety (COPS)	—	4,403	4,403
Public Facilities Financing Authority	—	4,260	4,260
6th & K Operating Fund	—	3,854	3,854
Section 108	—	3,512	3,512
Road Maintenance & Rehabilitation	3,248	—	3,248
Library Improvement	3,185	—	3,185
Miscellaneous Donations	—	2,606	2,606
Los Penasquitos Trust	—	2,342	2,342
Successor Agency Property Management	—	2,219	2,219
Seized Assets	—	2,128	2,128
Downtown PBID	—	1,880	1,880
Animal Shelter Campaign	—	1,672	1,672
Public Safety Training	—	1,660	1,660
Mt. Hope Pre-Need Trust	—	1,457	1,457
Tierrasanta Ordinance	—	1,335	1,335
San Diego Regional Revolving Loan Fund	—	1,246	1,246
Disability Surcharge (SB1186)	—	1,145	1,145
Abandoned Vehicle Abatement (AVA)	—	1,087	1,087
Other [2]	2,131	14,418	16,549
Total Restricted	132,307	1,582,579	1,714,886

	General Fund	Other Governmental Funds	Total Governmental Funds
COMMITTED			
Public Liability	$ 52,639	$ —	$ 52,639
Capital Outlay - Unbudgeted	—	45,772	45,772
Workers' Compensation	40,051	—	40,051
SDCCU Stadium Operations	—	9,499	9,499
Trench Cut Fees	—	8,330	8,330
Civil Penalty Enforcement	—	6,569	6,569
Transient Occupancy Tax	—	6,130	6,130
City TV	—	5,548	5,548
Public Art	—	3,572	3,572
SAP Support	2,595	—	2,595
Low-Income Housing Lease Revenue	—	2,366	2,366
Economic & Workforce Development	—	2,160	2,160
Information Technology	1,611	—	1,611
Automated Refuse Containers	—	1,381	1,381
Retirement UAAL SDCERS Reserve	1,212	—	1,212
Other [2]	2,375	6,584	8,959
Total Committed	100,483	97,911	198,394
ASSIGNED			
Budgeted Fund Balance	24,717	—	24,717
UNASSIGNED	95,434	(43,514)	51,920
TOTAL FUND BALANCE	$ 353,804	$ 1,655,018	$ 2,008,822

[1] Restricted Fund Balance for Grants and Capital Outlay-Unbudgeted includes $176,965 and $30,380 respectively, for long-term receivables due from the Successor Agency. These amounts are not available to satisfy liabilities of the current period.

[2] The amounts reported as "Other" are composed of a variety of restrictions and commitments less than $1,000.

23. RESTATEMENTS OF NET POSITION (Dollars in Thousands)

Implementation of GASB Statement No. 75

The City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), which applies to state and local government employers who provide OPEB to employees. The accounting changes adopted to conform to the provisions of this statement were applied retroactively by restating the City's beginning net position for its Governmental Activities, Business-Type Activities, and Proprietary Funds. The restatements include the reversal of the Net OPEB Obligation under the former GASB standard, and establishing the Net OPEB Liability and prior year contribution reclassification pursuant to GASB 75. The restatement resulted in a net decrease to beginning net position of $188,417 for Governmental Activities, $54,483 for Business-Type Activities, and $63,801 for Proprietary Funds. See Note 13 for more information regarding the City's OPEB Plan.

The tables below summarize the net position restatements:

	Primary Government	
	Governmental Activities	Business-Type Activities
Net Position as of June 30, 2017, as Previously Reported	$ 4,368,781	$ 4,547,664
GASB Statement No. 75 Adjustments:		
To reverse Net OPEB Obligation	215,076	61,778
To establish Net OPEB Liability	(427,197)	(122,884)
To reclassify FY2017 OPEB Contributions to Deferred Outlows of Resources	23,704	6,623
Net Position as of June 30, 2017, as Restated	$ 4,180,364	$ 4,493,181

	Proprietary Funds			
	Sewer Utility	Water Utility	Other Enterprise	Internal Service
Net Position as of June 30, 2017, as Previously Reported	$ 2,461,738	$ 1,985,699	$ 98,745	$ 170,744
GASB Statement No. 75 Adjustments:				
To reverse Net OPEB Obligation	21,828	21,309	18,641	10,150
To establish Net OPEB Liability	(43,689)	(42,310)	(36,885)	(20,366)
To reclassify FY2017 OPEB Contributions to Deferred Outlows of Resources	2,051	2,365	2,207	898
Net Position as of June 30, 2017, as Restated	$ 2,441,928	$ 1,967,063	$ 82,708	$ 161,426

24. SUBSEQUENT EVENTS (Dollars in Thousands)

The following information describes certain events that occurred after the end of the fiscal year.

Loan Agreements

On August 30, 2018, the City's Sewer Utility Fund received an additional $960 from a $12,000 State Revolving Fund (SRF) Loan agreement with the California State Water Resources Control Board (SWRCB) for the MBC Centrifuge Project. Amendment No.4 executed on August 20, 2018 revised the loan from $12,425 to $12,000 and extended the completion of the construction to February 28, 2019. The interest rate on the loan is 1.7% and the repayment period for the loan is 20 years, beginning one year after completion of construction of the project, which is currently projected for February 2020.

On September 5, 2018, the City's Water Utility Fund received an additional disbursement of $2,124 from a $15,000 SRF Loan agreement with the SWRCB for the 69th Street and Mohawk Pump Station Project. The interest rate on the loan is 1.7% and the repayment period for the loan is 30 years, beginning one year after completion of construction of the project, which is currently projected for May 2020.

On September 12, 2018, the City's Sewer Utility Fund received the first disbursement of $3,217 from a $70,000 SRF Loan agreement with the SWRCB for the Pump Station 2 Power Reliability and Surge Protection Project. The interest rate on the loan is 1.8% and the repayment period for the loan is 30 years, beginning one year after completion of construction of the project, which is currently projected for November 2022.

On October 11, 2018, the City's Water Utility Fund received an additional disbursement of $2,632 from a $15,000 SRF Loan agreement with the SWRCB for the 69th Street and Mohawk Pump Station Project. The interest rate on the loan is 1.7% and the repayment period for the loan is 30 years, beginning one year after completion of construction of the project, which is currently projected for May 2020.

Pure Water Program

In October 2018, the City Council approved a loan that will finance nearly half of the first phase of Pure Water. The $614 million loan comes from the USEPA Water Infrastructure Finance and Innovation Act (WIFIA) Program and will cover a significant portion of the $1.47 billion project. The first phase of the project is scheduled to begin construction in 2019 and will expand potable water production capacity to produce 30 million gallons per day to reduce the use of imported water by early calendar year 2024.

On November 15, 2018, the City Council voted to authorize the bid, award, and execution of construction contracts for Pure Water of up to $1.08 billion, to establish a $103 million contingency pool for Pure Water projects, to establish an Owner-Controlled Insurance Program ("OCIP") for Pure Water projects, and to negotiate a Reservation of Rights Agreement with SDG&E that provides initial funding to SDG&E to begin design and relocation of existing gas and electrical facilities. See Note 17 for more information regarding Pure Water.

Commercial Paper Notes

On May 22, 2018, the City adopted a resolution authorizing the City of San Diego Lease Revenue Commercial Paper Program (General Fund CP) in an amount not-to-exceed $80,500. On August 14, 2018, the City adopted a resolution increasing the not-to-exceed amount to $88,500. PFFA adopted a resolution to effectuate the same increase on October 30, 2018.

Funds from the General Fund Commercial Paper notes (General Fund CP Notes) issued will be used to finance the costs of the acquisition, design, construction, installation, improvement, replacement, and equipping of certain capital improvement projects of the City and to pay costs of issuance. The General Fund CP Notes are payable from the Base Rental Payments to be made by the City pursuant to the Lease between the City and the PFFA and amounts in the funds and accounts pledged under the Indenture. The General Fund CP Notes are secured by an irrevocable transferable direct-pay letter of credit (LOC) issued by Wells Fargo Bank, National Association and will mature on such dates as determined by the City, but no later than 270 days from the date of their issuance or the date which is two business days prior to the termination date of the LOC. The LOC has an initial stated amount of $92,864, which is the sum of the principal component of $88,500 and interest component of $4,364, and a stated expiration date of November 26, 2021, unless extended or terminated sooner in accordance with its terms.

On October 26, 2018, PFFA issued tax-exempt Water CP Notes in the amount of $37,676 to finance the design, acquisition, construction, installation and improvements of components of the City's water system. The interest rates on the issued Water CP Notes were 1.68-1.70%.

On November 5, 2018, a resolution was adopted approving the proposed form and content of the offering memorandum and financing documents, and the issuance, delivery, and sale of the General Fund CP Notes.

On November 27, 2018, PFFA issued a tax-exempt General Fund CP Note in the amount of $6,868. The interest rate on the note is 1.72%.

Water Revenue Bonds

On September 27, 2018, the City adopted an ordinance authorizing the issuance and sale by PFFA of its 2018 Water Revenue Bonds in an amount not to exceed $283,000 to provide funds for the financing of projects, including refunding all outstanding Water CP Notes. On November 20, 2018, the City and PFFA adopted a resolution approving and authorizing the execution of a Bond Purchase Agreement, approving the form of a Preliminary Official Statement (POS) relating to the 2018 Water Revenue Bonds and the execution, delivery, and distribution of the final Official Statement (OS). On November 29, 2018, the City released the POS and expects to close the Water Revenue Bonds in early January 2019.

California Supreme Court Ruling on Proposition B

On August 2, 2018, the California Supreme Court overturned the Court of Appeal's decision finding that the City failed to meet and confer with City labor unions prior to placing Proposition B on the ballot in June 2012. The Supreme Court did not invalidate Proposition B, but instead remanded the PERB case to the Court of Appeal for further proceedings. It is possible that the Court of Appeal will uphold the PERB order issued in 2015 which, in part, required the City to make employees whole for pension benefits lost, offset by the value of new benefits provided to them under Proposition B. Based on the City's preliminary analysis and the actuarial work performed by the San Diego City Employees' Retirement System, the City believes that the benefits provided under Proposition B and the pension benefits the affected employees would have otherwise received under the City's defined benefit plan have comparable values; meaning the potential cost to the City as it relates to the "make-whole" provision in the PERB order is inconsequential . However, PERB did not clearly define how the value of these respective benefits should be calculated. Thus, under the PERB Order, the City

is required to negotiate with the labor unions the terms under which affected employees will be made whole. As a result, the ultimate cost to the City (if any) will be the product of these negotiations. A further consideration in implementing any "make-whole remedy" is compliance with federal tax laws and regulations, which may also restrict the remedies available through labor negotiations.

Update to Actuarial Valuation of Net Pension Liability (NPL)

On November 16, 2018, the SDCERS actuary released the GASB 67/68 report identifying changes to the City's NPL as of the measurement date of June 30, 2018. The report indicates the NPL is $2,613,519, an increase of $91,462 primarily due to the net results of investment gains offset with a change in assumptions and an actuarial liability loss during fiscal year 2018. The City reports its NPL one year in arrears, using the measurement date of June 30, 2017. The results of the new report will be reported in the fiscal year 2019 financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

DEFINED BENEFIT PENSION PLANS AND OPEB PLAN

Torrey Pines Golf Course, La Jolla, CA

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)
June 30, 2018
(Dollars in Thousands)

GASB 67 and 68 Reporting for June 30, 2017 Measurement Date
Schedule of Changes in Net Pension Liability and Related Ratios

Total Pension Liability	FYE 2017	FYE 2016	FYE 2015	FYE 2014
Service Cost (Middle of Year)	$ 106,877	$ 93,804	$ 102,688	$ 107,003
Interest (Includes Interest on Service Cost)	613,529	573,760	554,988	537,875
Differences Between Expected and Actual Experience	71,123	21,285	46,416	—
Changes in Assumptions	249,740	620,314	—	—
Benefit Payments, Including Refunds of Member Contributions	(477,039)	(452,781)	(429,238)	(384,980)
Net Change in Total Pension Liability	564,230	856,382	274,854	259,898
Total Pension Liability, Beginning	8,946,661	8,090,279	7,815,425	7,555,527
Total Pension Liability, Ending	9,510,891	8,946,661	8,090,279	7,815,425
Plan Fiduciary Net Position				
Contributions-Employer	265,572	259,543	268,061	279,659
Contributions-Member	57,050	59,377	59,042	65,467
Net Investment Income	857,923	64,155	207,653	935,051
Benefit Payments, Including Refunds of Member Contributions	(477,039)	(452,781)	(429,238)	(384,980)
Administrative Expense	(10,778)	(10,900)	(8,693)	(10,467)
Net Change in Plan Fiduciary Net Position	692,728	(80,606)	96,825	884,730
Plan Fiduciary Net Position, Beginning	6,296,107	6,376,713	6,279,888	5,395,158
Plan Fiduciary Net Position, Ending	6,988,835	6,296,107	6,376,713	6,279,888
Net Pension Liability, Ending	$ 2,522,056	$ 2,650,554	$ 1,713,566	$ 1,535,537
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.48%	70.37%	78.82%	80.35%
Covered Pensionable Payroll	$ 465,100	$ 480,662	$ 480,536	$ 499,463
Net Pension Liability as a Percentage of Covered Payroll	542.26%	551.44%	356.59%	307.44%

GASB 73 Reporting for June 30, 2017 Measurement Date
Preservation of Benefits Plan Schedule of Changes in Total Pension Liability

Total Pension Liability	FYE 2017	FYE 2016
Service Cost (Middle of Year)	$ 60	$ 36
Interest (Includes Interest on Service Cost)	312	406
Differences Between Expected and Actual Experience	635	—
Changes in Assumptions	(589)	1,588
Benefit Payments	(1,633)	(1,596)
Net Change in Total Pension Liability	(1,215)	434
Total Pension Liability, Beginning	11,747	11,313
Total Pension Liability, Ending	$ 10,532	$ 11,747
Covered Pensionable Payroll	$ 465,100	$ 480,662
Total Pension Liability as a Percentage of Covered Payroll	2.26%	2.44%

Pension Plans Schedule of Employer Contributions

Last 10 Fiscal Years (Dollars in Thousands)

	2018	2017	2016	2015	2014
Actuarially Determined Contribution	$ 324,500	$ 261,100	$ 254,900	$ 263,600	$ 275,400
Contributions in Relation to the Actuarially Determined Contribution	324,500	261,100	254,900	263,600	275,400
Contribution Deficiency/(Excess)	$ —	$ —	$ —	$ —	$ —
Covered Payroll [1]	$ 448,890	$ 465,100	$ 480,662	$ 480,536	$ 499,463
Contributions as a Percentage of Covered Payroll	72.29%	56.14%	53.03%	54.86%	55.14%

	2013	2012	2011	2010	2009
Actuarially Determined Contribution	$ 231,100	$ 231,200	$ 229,100	$ 154,200	$ 161,700
Contributions in Relation to the Actuarially Determined Contribution	231,143	231,200	229,297	192,533	162,475
Contribution Deficiency/(Excess)	$ (43)	$ —	$ (197)	$ (38,333)	$ (775)
Covered Payroll [1]	$ 511,091	$ 514,265	$ 530,238	$ 536,591	$ 535,774
Contributions as a Percentage of Covered Payroll	45.23%	44.96%	43.24%	35.88%	30.33%

Valuation Date: 6/30/2016

Key Methods and Assumptions Used to Determine Contributions:

Actuarial Cost Method	Entry Age Normal.
Asset Valuation Method	Expected Value Method. The actuarial value of assets was set to the market rate for the 2006 valuation, with the new smoothing method first applying to investment experience for the 2007 fiscal year.
Amortization Method	Closed periods. Payments are a level percentage of payroll (Police) or level dollar (non-Police). In the 2007 valuation, the amortization period was reduced from 27 to 20 years, with subsequent gains or losses amortized over different periods depending on the source. In the 2012 valuation, as a result of Proposition B, the UAL for the non-Police portion of the plan was re-amortized over a closed 15-year period with level dollar payments.
Discount Rate	7.00%. The discount rate was reduced from 8.00% to 7.75% in the 2008 valuation, from 7.75% to 7.50% in the 2011 valuation, from 7.50% to 7.25% in the 2013 valuation, from 7.25% to 7.125% in the 2015 valuation, and 7.125% to 7.00% in the 2016 valuation.
Amortization Growth Rate	3.05%. Same pattern of changes described below for salary increase assumption (excluding freezes).
Wage Inflation	3.05%. Same pattern of changes described below for salary increase assumption.
Salary Increases	3.05% (following assumed freezes in fiscal years 2013-2018) plus merit component based on employee classification and years of service. The across-the-board salary increase assumption was reduced from 4.25% to 4.00% in the 2008 valuation, from 4.00% to 3.75% in the 2011 valuation, and from 3.75% to 3.30% in the 2013 valuation, from 3.30% to 3.175% in the 2015 valuation, and from 3.175% to 3.05% in the 2016 valuation. In the 2011 valuation, a two-year salary freeze assumption (for fiscal years 2013-2014) was added and in the 2013 valuation an additional four-year freeze was assumed (fiscal years 2015-2018).
Cost-Of-Living Adjustments	1.9%, combined annually. The COLA assumption was reduced from 2.0% to 1.9% in the 2016 valuation.
Mortality	Retired healthy members use the CalPERS Post-Retirement Healthy Mortality Table base rates from the CalPERS January 2014 Experience Study, with a 10% increase to female rates, with projection for improvement. From 2005-2007 (valuation years),the UP-1994 table was used, with a two-year setback for males and females. From 2008-2010, the RP-2000 Combined Mortality Table was used, with a two-year set forward for males and females. From 2011-2015, healthy retired members used the RP-2000 Combined Mortality Table (male and female), with rates set forward one year for Safety female members.

A complete description of the methods and assumptions used to determine contribution rates for the year ended June 30, 2018 can be found in the June 30, 2016 Actuarial Valuation Report.

The annual money-weighted rate of return on pension plan investments can be found in the separately issued SDCERS financial report available at www.sdcers.org.

[1] Covered Payroll is pensionable payroll for SDCERS members as of the beginning of the measurement year.

OPEB TRUST FUND

GASB 75 Reporting for June 30, 2017 Measurement Date
Schedule of Changes in the Net OPEB Liability and Related Ratios (Dollars in Thousands)

Total OPEB Liability	**FYE 2017**
Service Cost	$ 1,237
Interest on the Total OPEB Liability	43,617
Differences Between Expected and Actual Experience	(4,915)
Benefit Payments	(40,280)
Net Change in Total OPEB Liability	(341)
Total OPEB Liability, Beginning	666,671
Total OPEB Liability, Ending	$ 666,330
Plan Fiduciary Net Position	
Contributions-Employer	$ 30,326
Contributions-Member	719
Net Investment Income	8,590
Benefit Payments	(40,280)
Administrative Expense	(59)
Net Change in Plan Fiduciary Net Position	(704)
Plan Fiduciary Net Position, Beginning	116,590
Plan Fiduciary Net Position, Ending	115,886
Net OPEB Liability, Ending	$ 550,444
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	17.39%
Covered-Employee Payroll	$ 61,397
Net OPEB Liability as a Percentage of Covered-Employee Payroll	896.53%

OPEB Plan Schedule of Employer Contributions

Last 10 Fiscal Years (Dollars in Thousands)

	2018	2017	2016	2015	2014
Actuarially Determined Contribution	$ 51,084	$ 48,475	$ 46,976	$ 41,740	$ 38,097
Contributions in Relation to the Actuarially Determined Contributions	30,380	30,326	39,254	31,515	31,540
Contribution Deficiency/(Excess)	$ 20,704	$ 18,149	$ 7,722	$ 10,225	$ 6,557
Covered-Employee Payroll [1]	$ 51,483	$ 61,397	$ 74,002	$ 87,252	$ 98,742
Contributions as a Percentage of Covered-Employee Payroll	59.01%	49.39%	53.04%	36.12%	31.94%

	2013	2012	2011	2010	2009
Actuarially Determined Contribution	$ 35,348	$ 49,061	$ 120,324	$ 113,426	$ 104,475
Contributions in Relation to the Actuarially Determined Contributions	37,464	23,857	33,868	31,689	33,868
Contribution Deficiency/(Excess)	$ (2,116)	$ 25,204	$ 86,456	$ 81,737	$ 70,607
Covered-Employee Payroll [1]	$ 112,782	$ 124,675	$ 455,537	$ 472,561	$ 549,012
Contributions as a Percentage of Covered-Employee Payroll	33.22%	19.14%	7.43%	6.71%	6.17%

Valuation Date: June 30, 2017

Key Methods and Assumptions Used to Determine Contributions:

Actuarial Cost Method	Entry Age Normal, Level Dollar
Asset Valuation Method	Market Value.
Amortization Method/Period	Closed 20 year period.
Discount Rate	6.73%.
Inflation	2.75%
Health Care Cost Trend Rates	8.00% pre-65 and 5.30% post-65 initial trend rates for FY 2017. Decreasing 0.5% per year pre-65 and 0.2% per year post-65 until ultimate is reached in FY 2024 pre-65 and FY 2021 post-65.
Retirement Age	Varies by age, service, and type of employee. Rates are based on an experience study performed for the San Diego City Employees' Retirement System in June 2011.
Mortality	The base mortality rates are based on an experience study performed for the San Diego City Employees' Retirement System in June 2011. These rates are projected on a fully generational basis using Scale BB to reflect more recently published information about future mortality improvement.

[1] Covered-Employee Payroll includes payroll for active employees in Options A and B only.

A complete description of the methods and assumptions used to determine the contribution for the fiscal year ended June 30, 2017 can be found in the June 30, 2016 Actuarial Valuation Report.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

GENERAL FUND

Spanish Village Art Center, Balboa Park, San Diego, CA

General Fund

The General Fund is the chief operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

General Fund revenues are derived from such sources as: Taxes; Franchise Fees, Licenses and Permits; Fines, Forfeitures, and Penalties; Revenue from the Use of Money and Property; Revenue from Federal and Other Agencies; Revenue from Private Sources; Charges for Current Services; and Other Revenue.

Current expenditures are classified by the following functions: General Government and Support; Public Safety - Police; Public Safety - Fire and Life Safety and Homeland Security; Parks, Recreation, Culture and Leisure; Transportation; Sanitation and Health; Neighborhood Services; Capital Outlay; and Debt Service Principal and Interest. This fund is appropriated annually.

CITY OF SAN DIEGO
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Original Budget	Final Budget	Actual Amounts [1]	Variance with Final Budget Positive (Negative)
REVENUES				
Property Taxes	$ 534,621	$ 534,621	$ 535,481	$ 860
Sales Taxes	275,308	275,308	272,886	(2,422)
Transient Occupancy Taxes	121,055	121,055	121,904	849
Franchise Fees	75,087	75,087	80,215	5,128
Other Local Taxes	10,069	10,069	10,719	650
Licenses and Permits	21,663	21,663	22,000	337
Fines, Forfeitures and Penalties	31,852	31,852	30,684	(1,168)
Revenue from Use of Money and Property	58,443	58,443	65,289	6,846
Revenue from Federal Agencies	220	1,720	1,483	(237)
Revenue from Other Agencies	4,263	5,622	8,190	2,568
Revenue from Private Sources	2,147	2,147	1,225	(922)
Charges for Current Services	152,804	156,888	155,173	(1,715)
Other Revenue	2,428	2,428	4,142	1,714
TOTAL REVENUES	1,289,960	1,296,903	1,309,391	12,488
EXPENDITURES				
Current:				
General Government and Support	269,320	250,622	235,527	15,095
Public Safety - Police	468,251	475,795	475,795	—
Public Safety - Fire and Life Safety and Homeland Security	258,246	273,814	272,443	1,371
Parks, Recreation, Culture and Leisure	161,995	166,673	166,590	83
Transportation	65,677	66,216	65,287	929
Sanitation and Health	91,508	96,006	94,838	1,168
Neighborhood Services	30,602	28,987	28,762	225
Capital Outlay	1,553	2,801	2,742	59
Debt Service:				
Principal Retirement	4,478	5,618	5,618	—
Interest	962	8,307	7,675	632
TOTAL EXPENDITURES	1,352,592	1,374,839	1,355,277	19,562
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(62,632)	(77,936)	(45,886)	32,050
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	117,789	116,281	118,110	1,829
Transfers to Proprietary Funds	(20,572)	(200)	(200)	—
Transfers to Other Funds	(60,660)	(66,078)	(62,737)	3,341
TOTAL OTHER FINANCING SOURCES (USES)	36,557	50,003	55,173	5,170
NET CHANGE IN FUND BALANCE	(26,075)	(27,933)	9,287	37,220
FUND BALANCE AT BEGINNING OF YEAR	218,205	218,205	218,205	—
FUND BALANCE AT END OF YEAR	$ 192,130	$ 190,272	$ 227,492	$ 37,220

See accompanying note to required supplementary information.

[1] Amounts include funds associated with General Fund operations as reported in the City's budget. Financial statements prepared on a GAAP basis include additional funds that do not meet the criteria to be classified as special revenue funds, pursuant to GASB Statement No. 54.

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
Fiscal Year Ended June 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Budgetary Data

Each year, the Mayor submits to the City Council and the public a proposed operating and capital improvements budget by April 15 for the fiscal year commencing July 1. This budget includes annual budgets for the following governmental funds:

- **General Fund**
- **Special Revenue Funds**
  - City of San Diego:
    - Acquisition, Improvement and Operations
    - SDCCU Stadium Operations
    - Transient Occupancy Tax
    - Underground Surcharge
    - Zoological Exhibits
    - Other Special Revenue
  - Civic San Diego
- **Capital Projects Funds**
  - City of San Diego:
    - TransNet
    - Capital Outlay

Included in the budget are funds that include appropriations for personnel expenses and capital projects and certain funds that collect restricted or committed revenue sources. For those funds not specifically included in the budget, the Appropriation Ordinance includes authorization to appropriate funds for the purpose established by applicable laws and/or in accordance with provisions of agreements authorized by the City Council.

Public hearings are conducted to obtain residents' comments on the proposed budget. A budget resolution legally adopting the budget for the next fiscal year is passed prior to June 15. During the month of July, the Appropriation Ordinance is passed by the City Council, appropriating funds according to the budget resolution. Budgets are prepared on the modified accrual basis of accounting, with the exception that any increase/decrease in advances to other funds and agencies are considered as additions/deductions of expenditures. The City budget is prepared excluding unrealized gains or losses resulting from the change in fair value of investments.

Budgetary control is established at the highest level by the City Charter and further defined by the City Council in the Appropriation Ordinance. The level of budgetary control for all City funds is exercised at the salaries and wages and non-personnel expenditures level. Budgetary control for the General Fund is at the department level, while control for other budgeted funds, including those of certain component units, is maintained at the total fund appropriation level. All amendments to the adopted budget require City Council approval except as delegated in the Appropriation Ordinance.

Reported budget figures are as originally adopted or subsequently amended. Appropriations lapse at year-end to the extent that they have not been expended except for those of a capital nature, which continue to subsequent years.

The following is a reconciliation of the net change in fund balance for the General Fund prepared on a GAAP basis to that prepared on the budgetary basis for the year ended June 30, 2018 (dollars in thousands):

	General Fund
Net Change in Fund Balance - GAAP Basis	$ (19,655)
Add (Deduct):	
Unrealized Loss, June 30, 2018	2,529
Unrealized Loss, June 30, 2017	(855)
Advances to Other Funds, June 30, 2018	(733)
Advances to Other Funds, June 30, 2017	782
Other Perspective Differences [1,2]	(5,639)
Other Fund Activity [3]	32,858
Net Change in Fund Balance - Budgetary Basis	$ 9,287

[1] In fiscal year 2015, the General Fund accrued expenditures of $5,053, in the Statement of Revenues, Expenditures and Changes in Fund Balance (GAAP Basis), for low flow diversion capacity charges due to the Sewer Utility Fund. The City budgeted the remaining balance ($3,032) in fiscal year 2018. The City considers this to be a perspective difference between the GAAP basis and the budgetary basis of accounting.

[2] The City budgets and expends property management fees annually at a set monthly amount. This amount is then reconciled to monthly expenses for the property on a GAAP basis.

[3] The General Fund budgetary schedule includes funds associated with General Fund operations as reported in the City's budget. General Fund financial statements prepared on a GAAP basis include additional funds that do not meet the criteria to be classified as a special revenue fund, pursuant to GASB Statement No. 54. The City administers a number of these funds as separate budgetary entities.

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

Star of India, Harbor Drive, San Diego, CA

GENERAL FUND

Gaslamp Quarter, Downtown, San Diego, CA

GENERAL FUND
SCHEDULE OF REVENUES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
PROPERTY TAXES			
Current Year - Secured (One Percent Allocation)	$ 342,398	$ 372,031	$ (29,633)
Current Year Supplemental - Secured	5,223	—	5,223
Current Year - Unsecured	10,584	—	10,584
Current Unsecured Supplemental Roll	50	—	50
Homeowners' Exemptions - Secured	2,495	—	2,495
Homeowners' Exemptions - Unsecured	2	—	2
Prior years' - Secured	586	—	586
Prior years' - Unsecured	(279)	—	(279)
In-Lieu Vehicle License Fees	137,534	135,761	1,773
Interest and Penalties on Delinquent Taxes	940	—	940
Escapes - Secured	5,685	—	5,685
Escapes - Unsecured	754	—	754
Other Property Taxes	22,820	26,829	(4,009)
State Secured Unitary	6,689	—	6,689
TOTAL PROPERTY TAXES	535,481	534,621	860
SALES TAXES	272,886	275,308	(2,422)
TRANSIENT OCCUPANCY TAXES	121,904	121,055	849
FRANCHISE FEES	80,215	75,087	5,128
OTHER LOCAL TAXES			
Property Transfer Tax	10,719	10,069	650
LICENSES AND PERMITS			
General Business Licenses	7,391	7,501	(110)
Refuse Collection Business Licenses	1,218	1,100	118
Rental Unit Tax	7,279	7,460	(181)
Other Licenses and Permits	6,112	5,602	510
TOTAL LICENSES AND PERMITS	22,000	21,663	337
FINES, FORFEITURES AND PENALTIES			
California Vehicle Code Violations	26,925	27,694	(769)
Other City Ordinance Code Violations	3,759	4,158	(399)
TOTAL FINES, FORFEITURES AND PENALTIES	30,684	31,852	(1,168)
REVENUE FROM USE OF MONEY AND PROPERTY			
Interest on Investments	2,258	671	1,587
Balboa Park Rents and Concessions	343	284	59
Mission Bay Park Rents and Concessions	32,574	31,158	1,416
Other Rents and Concessions	30,114	26,330	3,784
TOTAL REVENUE FROM USE OF MONEY AND PROPERTY	65,289	58,443	6,846
REVENUE FROM FEDERAL AGENCIES	1,483	1,720	(237)

(Continued on Next Page)

GENERAL FUND
SCHEDULE OF REVENUES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUE FROM OTHER AGENCIES			
State Motor Vehicle License Fees	$ 741	$ —	$ 741
Local Relief	78	110	(32)
Other	7,371	5,512	1,859
TOTAL REVENUE FROM OTHER AGENCIES	8,190	5,622	2,568
REVENUE FROM PRIVATE SOURCES	1,225	2,147	(922)
CHARGES FOR CURRENT SERVICES			
Cemetery Revenue	846	694	152
Fire Services	13,326	13,354	(28)
Library Revenue	1,020	1,202	(182)
Police Services	8,896	7,202	1,694
Swimming Pools Revenue	1,062	1,156	(94)
Miscellaneous Recreation Revenue	4,562	5,383	(821)
Other Services	2,466	2,641	(175)
Services Rendered to Other Funds for:			
General Government and Financial	122,730	124,924	(2,194)
Miscellaneous Services	265	332	(67)
TOTAL CHARGES FOR CURRENT SERVICES	155,173	156,888	(1,715)
OTHER REVENUE			
Other Refunds of Prior Years' Expenditures	404	210	194
Repairs and Damage Recoveries	474	454	20
Sale of Personal Property	64	67	(3)
Miscellaneous Revenue	3,200	1,697	1,503
TOTAL OTHER REVENUE	4,142	2,428	1,714
TOTAL REVENUES	1,309,391	1,296,903	12,488
TRANSFERS FROM OTHER FUNDS			
Special Revenue Funds:			
City of San Diego:			
Interfund Transfers	70,888	69,059	1,829
Acquisition, Improvement and Operations	700	700	—
SDCCU Stadium Operations	8,500	8,500	—
Transient Occupancy Tax	26,819	26,819	—
Other Special Revenue - Unbudgeted	1,133	1,133	—
Capital Projects Funds:			
TransNet - Budgeted	9,644	9,644	—
Permanent Funds:			
Cemetery Perpetuity	426	426	—
TOTAL TRANSFERS FROM OTHER FUNDS	118,110	116,281	1,829
TOTAL REVENUE AND TRANSFERS	$ 1,427,501	$ 1,413,184	$ 14,317

GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Actual on Budgetary Basis	Final Budget	Variance with Final Budget (Negative)
GENERAL GOVERNMENT AND SUPPORT			
Office of the Mayor			
Salaries and Wages	$ 2,266	$ 2,266	$ —
Non-Personnel	2,094	2,252	158
Total Office of the Mayor	4,360	4,518	158
City Council District 1			
Salaries and Wages	560	607	47
Non-Personnel	537	589	52
Total City Council District 1	1,097	1,196	99
City Council District 2			
Salaries and Wages	634	634	—
Non-Personnel	618	748	130
Total City Council District 2	1,252	1,382	130
City Council District 3			
Salaries and Wages	606	617	11
Non-Personnel	416	506	90
Total City Council District 3	1,022	1,123	101
City Council District 4			
Salaries and Wages	564	631	67
Non-Personnel	594	676	82
Total City Council District 4	1,158	1,307	149
City Council District 5			
Salaries and Wages	555	669	114
Non-Personnel	402	508	106
Total City Council District 5	957	1,177	220
City Council District 6			
Salaries and Wages	586	669	83
Non-Personnel	377	454	77
Total City Council District 6	963	1,123	160
City Council District 7			
Salaries and Wages	712	712	—
Non-Personnel	478	505	27
Total City Council District 7	1,190	1,217	27
City Council District 8			
Salaries and Wages	645	645	—
Non-Personnel	610	747	137
Total City Council District 8	1,255	1,392	137
City Council District 9			
Salaries and Wages	605	632	27
Non-Personnel	676	760	84
Total City Council District 9	1,281	1,392	111
Council Administration			
Salaries and Wages	1,257	1,257	—
Non-Personnel	1,143	1,322	179
Total Council Administration	2,400	2,579	179

(Continued on Next Page)

GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Actual on Budgetary Basis	Final Budget	Variance with Final Budget (Negative)
City Clerk			
Salaries and Wages	$ 2,343	$ 2,343	$ —
Non-Personnel	3,125	3,224	99
Total City Clerk	5,468	5,567	99
Independent Budget Analyst			
Salaries and Wages	1,124	1,124	—
Non-Personnel	869	1,022	153
Total Independent Budget Analyst	1,993	2,146	153
City Attorney			
Salaries and Wages	28,692	28,692	—
Non-Personnel	25,130	25,912	782
Total City Attorney	53,822	54,604	782
Personnel			
Salaries and Wages	4,544	4,544	—
Non-Personnel	4,360	4,410	50
Total Personnel	8,904	8,954	50
Ethics Commission			
Salaries and Wages	555	555	—
Non-Personnel	572	674	102
Total Ethics Commission	1,127	1,229	102
Office of the City Auditor			
Salaries and Wages	2,071	2,071	—
Non-Personnel	1,793	1,918	125
Total Office of the City Auditor	3,864	3,989	125
Assistant Chief Operating Officer			
Salaries and Wages	906	906	—
Non-Personnel	740	906	166
Total Assistant Chief Operating Officer	1,646	1,812	166
Performance and Analytics			
Salaries and Wages	1,311	1,311	—
Non-Personnel	1,078	1,188	110
Total Performance and Analytics	2,389	2,499	110
Human Resources			
Salaries and Wages	2,641	2,641	—
Non-Personnel	2,660	2,761	101
Total Human Resources	5,301	5,402	101
Department of Information Technology			
Non-Personnel	232	232	—
Office of the Chief Operating Officer			
Salaries and Wages	873	873	—
Non-Personnel	743	743	—
Total Office of the Chief Operating Officer	1,616	1,616	—
Internal Operations			
Salaries and Wages	233	233	—
Non-Personnel	249	249	—
Total Internal Operations	482	482	—

GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Actual on Budgetary Basis	Final Budget	Variance with Final Budget (Negative)
Communications			
Salaries and Wages	$ 2,031	$ 2,031	$ —
Non-Personnel	1,925	1,925	—
Total Communications	3,956	3,956	—
Chief Financial Officer			
Salaries and Wages	313	313	—
Non-Personnel	284	306	22
Total Chief Financial Officer	597	619	22
City Comptroller			
Salaries and Wages	5,876	5,876	—
Non-Personnel	6,153	6,187	34
Total City Comptroller	12,029	12,063	34
Debt Management			
Salaries and Wages	1,618	1,618	—
Non-Personnel	1,289	1,498	209
Total Debt Management	2,907	3,116	209
Financial Management			
Salaries and Wages	2,318	2,318	—
Non-Personnel	1,676	1,949	273
Total Financial Management	3,994	4,267	273
Purchasing and Contracting			
Salaries and Wages	3,061	3,061	—
Non-Personnel	2,763	2,763	—
Total Purchasing and Contracting	5,824	5,824	—
City Treasurer			
Salaries and Wages	6,344	6,344	—
Non-Personnel	8,954	8,954	—
Total City Treasurer	15,298	15,298	—
Neighborhood Services			
Salaries and Wages	642	642	—
Non-Personnel	361	413	52
Total Neighborhood Services	1,003	1,055	52
Real Estate Assets			
Salaries and Wages	2,334	2,334	—
Non-Personnel	4,440	4,573	133
Total Real Estate Assets	6,774	6,907	133
General Services			
Salaries and Wages	8,055	8,055	—
Non-Personnel	11,049	11,498	449
Total General Services	19,104	19,553	449
Public Works/Infrastructure			
Salaries and Wages	473	473	—
Non-Personnel	424	487	63
Total Public Works/Infrastructure	897	960	63
Public Works - Contracts			
Salaries and Wages	1,179	1,179	—
Non-Personnel	851	1,068	217
Total Public Works - Contracts	2,030	2,247	217

(Continued on Next Page)

GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Actual on Budgetary Basis	Final Budget	Variance with Final Budget (Negative)
Citywide Expenses			
Non-Personnel	$ 57,335	$ 67,819	$ 10,484
TOTAL GENERAL GOVERNMENT AND SUPPORT	235,527	250,622	15,095
PUBLIC SAFETY - POLICE			
Salaries and Wages	217,904	217,904	—
Non-Personnel	257,891	257,891	—
TOTAL PUBLIC SAFETY - POLICE	475,795	475,795	—
PUBLIC SAFETY - FIRE AND LIFE SAFETY AND HOMELAND SECURITY			
Fire - Rescue			
Salaries and Wages	133,895	133,895	—
Non-Personnel	135,778	137,084	1,306
Total Fire - Rescue	269,673	270,979	1,306
Office of Homeland Security			
Salaries and Wages	1,289	1,289	—
Non-Personnel	1,481	1,546	65
Total Office of Homeland Security	2,770	2,835	65
TOTAL PUBLIC SAFETY - FIRE AND LIFE SAFETY AND HOMELAND SECURITY	272,443	273,814	1,371
PARKS, RECREATION, CULTURE AND LEISURE			
Library			
Salaries and Wages	20,210	20,210	—
Non-Personnel	31,594	31,594	—
Total Library	51,804	51,804	—
Parks and Recreation			
Salaries and Wages	36,920	36,920	—
Non-Personnel	75,218	75,300	82
Total Parks and Recreation	112,138	112,220	82
Reservoir Concessions			
Non-Personnel	2,648	2,649	1
TOTAL PARKS, RECREATION, CULTURE AND LEISURE	166,590	166,673	83
TRANSPORTATION			
Salaries and Wages	21,688	21,688	—
Non-Personnel	43,599	44,528	929
TOTAL TRANSPORTATION	65,287	66,216	929
SANITATION AND HEALTH			
Environmental Services			
Salaries and Wages	8,374	8,374	—
Non-Personnel	32,122	32,642	520
Total Environmental Services	40,496	41,016	520
Storm Water			
Salaries and Wages	10,976	10,976	—
Non-Personnel	43,366	44,014	648
Total Storm Water	54,342	54,990	648
TOTAL SANITATION AND HEALTH	94,838	96,006	1,168

GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Actual on Budgetary Basis	Final Budget	Variance with Final Budget (Negative)
NEIGHBORHOOD SERVICES			
Development Services			
Salaries and Wages	$ 3,612	$ 3,612	$ —
Non-Personnel	3,106	3,106	—
Total Development Services	6,718	6,718	—
Economic Development			
Salaries and Wages	4,074	4,074	—
Non-Personnel	8,638	8,694	56
Total Economic Development	12,712	12,768	56
Planning			
Salaries and Wages	4,384	4,384	—
Non-Personnel	4,948	5,117	169
Total Planning	9,332	9,501	169
TOTAL NEIGHBORHOOD SERVICES	28,762	28,987	225
CAPITAL OUTLAY	2,742	2,801	59
DEBT SERVICE			
Principal Retirement	5,618	5,618	—
Interest	7,675	8,307	632
TOTAL DEBT SERVICE	13,293	13,925	632
TOTAL EXPENDITURES	1,355,277	1,374,839	19,562
TRANSFERS TO PROPRIETARY FUNDS			
Enterprise Funds:			
Development Services	200	200	—
TRANSFERS TO OTHER FUNDS			
Special Revenue Funds:			
City of San Diego:			
Interfund Transfers	20,536	23,877	3,341
Acquisition, Improvement and Operations	1,000	1,000	—
SDCCU Stadium Operations	1,000	1,000	—
Transient Occupancy Tax	4,214	4,214	—
Grants	9	9	—
Other Special Revenue - Unbudgeted	2,902	2,902	—
Total Special Revenue Funds	29,661	33,002	3,341
Debt Service Funds:			
Public Facilities Financing Authority	15,505	15,505	—
Capital Projects Funds:			
City of San Diego:			
Capital Outlay - Budgeted	12,637	12,637	—
Capital Grants	52	52	—
Capital Outlay - Unbudgeted	4,882	4,882	—
Total Capital Projects Funds	17,571	17,571	—
TOTAL TRANSFERS TO OTHER FUNDS	62,737	66,078	3,341
TOTAL EXPENDITURES AND TRANSFERS	$ 1,418,214	$ 1,441,117	$ 22,903

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NONMAJOR GOVERNMENTAL FUNDS

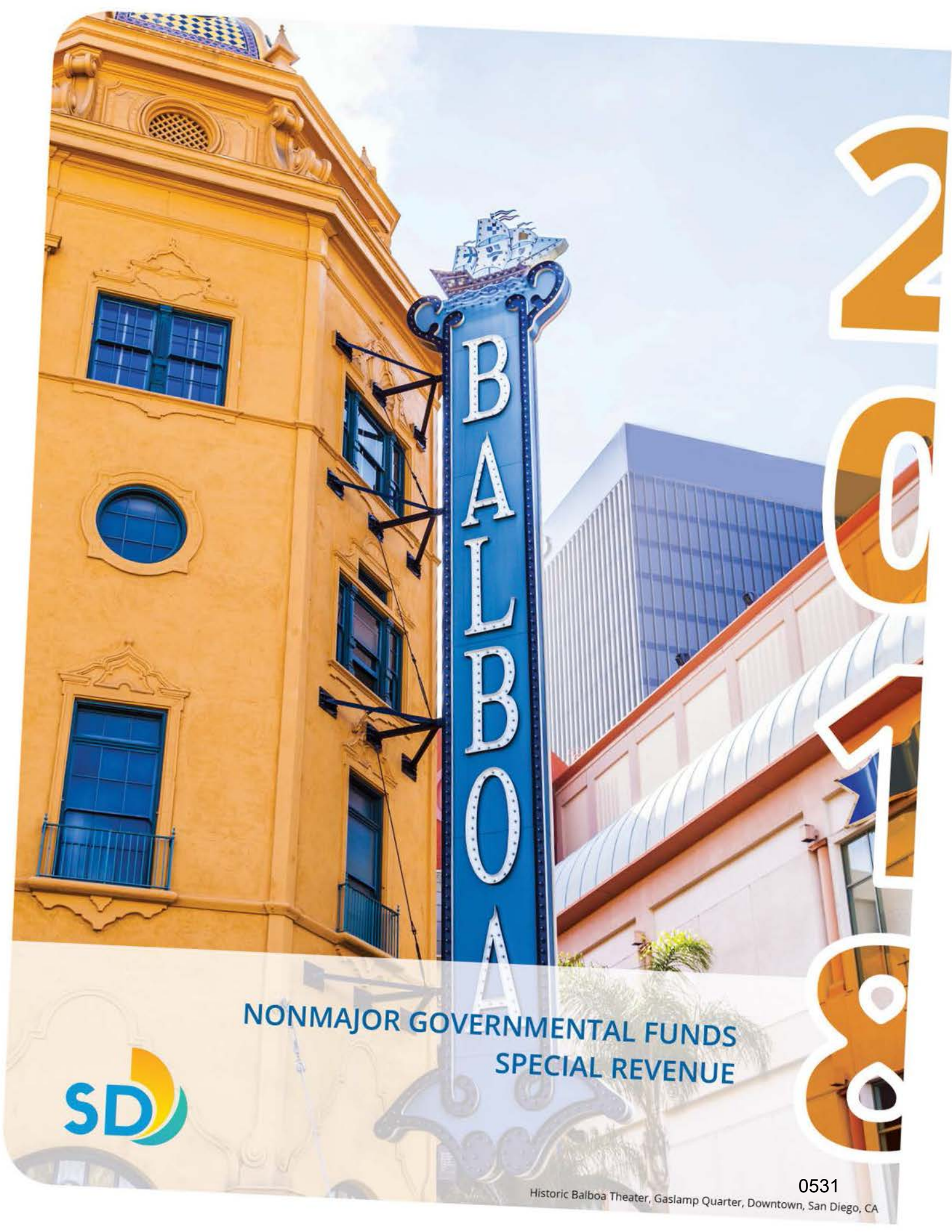
Alcazar Garden, Balboa Park, San Diego, CA

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2018
(Dollars in Thousands)

	Special Revenue	Debt Service	Capital Projects	Permanent	Total Nonmajor Governmental Funds
ASSETS					
Cash and Investments	$ 484,718	$ 5	$ 659,159	$ —	$ 1,143,882
Receivables:					
Taxes - Net of Allowance for Uncollectibles	26,973	—	32,752	—	59,725
Accounts - Net of Allowance for Uncollectibles	10,810	4,718	5,267	—	20,795
Claims	—	—	30,380	—	30,380
Special Assessments	121	—	—	—	121
Notes	265,041	—	—	—	265,041
Loans	180,472	—	—	—	180,472
Accrued Interest	1,058	12	1,376	14	2,460
Grants	22,272	—	3,926	—	26,198
Advances to Other Agencies	4,383	—	11	—	4,394
Land Held for Resale	20,778	—	—	—	20,778
Prepaid Items	195	—	—	—	195
Restricted Cash and Investments	4,046	12,139	48,507	20,763	85,455
TOTAL ASSETS	$ 1,020,867	$ 16,874	$ 781,378	$ 20,777	$ 1,839,896
LIABILITIES					
Accounts Payable	$ 37,673	$ —	$ 29,620	$ 4	$ 67,297
Accrued Wages and Benefits	379	—	—	—	379
Other Accrued Liabilities	1,259	—	—	—	1,259
Due to Other Funds	20,918	—	6,199	—	27,117
Due to Other Agencies	10	—	13	—	23
Unearned Revenue	4,815	—	17,775	—	22,590
Advances from Other Funds	733	—	—	—	733
TOTAL LIABILITIES	65,787	—	53,607	4	119,398
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Taxes	222	—	32,558	—	32,780
Unavailable Revenue - Grants	17,231	—	2,209	—	19,440
Unavailable Revenue - Other	6,194	4,718	2,348	—	13,260
TOTAL DEFERRED INFLOWS OF RESOURCES	23,647	4,718	37,115	—	65,480
FUND BALANCES					
Nonspendable	206	—	—	17,836	18,042
Restricted	896,338	12,156	671,148	2,937	1,582,579
Committed	52,139	—	45,772	—	97,911
Unassigned	(17,250)	—	(26,264)	—	(43,514)
TOTAL FUND BALANCES	931,433	12,156	690,656	20,773	1,655,018
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 1,020,867	$ 16,874	$ 781,378	$ 20,777	$ 1,839,896

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Special Revenue	Debt Service	Capital Projects	Permanent	Total Nonmajor Governmental Funds
REVENUES					
Property Taxes	$ 13,389	$ —	$ —	$ —	$ 13,389
Special Assessments	63,870	—	—	—	63,870
Sales Taxes	—	—	31,702	—	31,702
Transient Occupancy Taxes	109,959	—	—	—	109,959
Franchises	63,977	—	—	—	63,977
Licenses and Permits	14,521	—	71,995	—	86,516
Fines, Forfeitures and Penalties	1,449	—	—	—	1,449
Revenue from Use of Money and Property	24,286	658	6,073	735	31,752
Revenue from Federal Agencies	42,177	—	10,106	—	52,283
Revenue from Other Agencies	4,990	10,952	9,716	—	25,658
Revenue from Private Sources	4,852	—	2,593	678	8,123
Charges for Current Services	26,261	—	77	127	26,465
Other Revenue	3,338	—	730	—	4,068
TOTAL REVENUES	373,069	11,610	132,992	1,540	519,211
EXPENDITURES					
Current:					
General Government and Support	25,604	—	3,931	—	29,535
Public Safety - Police	6,414	—	—	—	6,414
Public Safety - Fire and Life Safety and Homeland Security	12,347	—	—	—	12,347
Parks, Recreation, Culture and Leisure	147,276	—	7,202	24	154,502
Transportation	33,110	—	20,984	—	54,094
Sanitation and Health	3,548	—	581	71	4,200
Neighborhood Services	64,251	—	77	—	64,328
Capital Outlay	45,026	—	173,621	—	218,647
Debt Service:					
Principal Retirement	325	32,945	633	—	33,903
Cost of Issuance	—	1,500	—	—	1,500
Interest	178	47,013	90	—	47,281
Payment to Refunded Bond Escrow Agent	—	13,125	—	—	13,125
TOTAL EXPENDITURES	338,079	94,583	207,119	95	639,876
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	34,990	(82,973)	(74,127)	1,445	(120,665)
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	—	—	61	—	61
Transfers from Other Funds	25,127	51,710	18,932	—	95,769
Transfers to Proprietary Funds	(1,215)	—	—	—	(1,215)
Transfers to Other Funds	(80,339)	(661)	(17,140)	(541)	(98,681)
Payment to Refunded Bond Escrow Agent	—	(183,745)	—	—	(183,745)
Proceeds from the Sale of Capital Assets	—	—	2,037	—	2,037
Capital Lease Proceeds	—	—	16,191	—	16,191
Revenue Bonds Issued	—	129,320	—	—	129,320
Tobacco Settlement Bonds Issued	—	73,784	24,071	—	97,855
Discount on Bonds Issued	—	(204)	—	—	(204)
TOTAL OTHER FINANCING SOURCES (USES)	(56,427)	70,204	44,152	(541)	57,388
NET CHANGE IN FUND BALANCES	(21,437)	(12,769)	(29,975)	904	(63,277)
Fund Balances at Beginning of Year	952,870	24,925	720,631	19,869	1,718,295
FUND BALANCES AT END OF YEAR	$ 931,433	$ 12,156	$ 690,656	$ 20,773	$ 1,655,018



NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE

Historic Balboa Theater, Gaslamp Quarter, Downtown, San Diego, CA

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for the proceeds of specific revenue sources (other than those for debt service or major capital projects) that are restricted or committed to expenditures for specified purposes.

CITY OF SAN DIEGO

ACQUISITION, IMPROVEMENT AND OPERATIONS - BUDGETED
This fund accounts for various operating activities including business improvement areas, lighting and landscape maintenance areas, facilities financing, and the City's public art program. Revenues are derived from business tax surcharges, special assessments on property, various rents, concessions and fees.

SDCCU STADIUM OPERATIONS - BUDGETED
This fund accounts for the operations of the SDCCU Stadium. The Stadium is host to San Diego State University Aztecs football, the San Diego County Credit Union Holiday Bowl, and other special events. Revenues are derived from rents, concessions, parking, and advertising.

TRANSIENT OCCUPANCY TAX - BUDGETED
This fund was established to receive and expend transient occupancy taxes. Since 1964, a tax has been imposed on transients of hotel and motel rooms in the City of San Diego. Effective since August 1994, the tax rate is 10.5%.

UNDERGROUND SURCHARGE - BUDGETED
This fund was established to account for activities related to the undergrounding of utilities. This fund receives and disburses undergrounding surcharge revenue in accordance with the City's franchise agreements with SDG&E.

ZOOLOGICAL EXHIBITS - BUDGETED
This fund was established to collect monies from a fixed property tax levy authorized by Section 77a of the City Charter for the maintenance of zoological exhibits. These funds are remitted in accordance with a contractual agreement with the San Diego Zoological Society, a not-for-profit corporation independent from the City.

OTHER SPECIAL REVENUE - BUDGETED
This fund was established to account for revenues derived specifically for a variety of budgeted special programs administered by City departments such as Development Services, Planning and Police. Revenues in this fund are derived from service charges, revenues from other agencies, and fines.

GRANTS - UNBUDGETED
This fund was established to account for revenue received from federal, state and other governmental agencies. Expenditures are made and accounted for as prescribed by appropriate grant provisions/agreements.

LOW-MODERATE INCOME HOUSING - UNBUDGETED
This fund was established to account for affordable housing assets transferred from the Successor Agency to the Successor Housing Entity, which is the City, as required by California Health and Safety Code Section 34176(d), due to the dissolution of the Redevelopment Agency. This fund will also account for any future revenues generated from the housing assets.

OTHER SPECIAL REVENUE - UNBUDGETED

This fund was established to account for revenues earmarked for a variety of special programs administered by such City departments as Economic Development, Libraries, Parks and Recreation, and Police. Revenues in this fund are derived from such sources as parking fees, service charges, contributions from other agencies and private sources, and interest earnings.

BLENDED COMPONENT UNITS

CIVIC SAN DIEGO

Civic San Diego (CSD) is a not-for-profit public benefit corporation resulting from restructuring and reorganizing the former Centre City Development Corporation (CCDC) and the Southeastern Economic Development Corporation (SEDC) into a single corporation. CCDC and SEDC were originally established to administer certain redevelopment project areas throughout the City. Upon dissolution of the former San Diego Redevelopment Agency (former RDA), CSD's main function is now focused on providing administrative and advisory services to the City as the Successor Agency. CSD also assists the City with downtown parking management administration and affordable housing development.

TOBACCO SETTLEMENT REVENUE FUNDING CORPORATION

This fund was established to account for the activities of the TSRFC. TSRFC was established for the purpose of acquiring the tobacco settlement revenues allocated to the City from the State of California, pursuant to the Master Settlement Agreement. The TSRFC's special revenue fund is used to account for the expenditures incurred for administrative services provided by the City.

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING BALANCE SHEET
June 30, 2018
(Dollars in Thousands)

	City of San Diego	Civic San Diego	Tobacco Settlement Revenue Funding Corporation	Total
ASSETS				
Cash and Investments	$ 477,709	$ 7,009	$ —	$ 484,718
Receivables:				
Taxes - Net of Allowance for Uncollectibles	26,973	—	—	26,973
Accounts - Net of Allowance for Uncollectibles	7,234	3,576	—	10,810
Special Assessments	121	—	—	121
Notes	265,041	—	—	265,041
Loans	180,472	—	—	180,472
Accrued Interest	1,058	—	—	1,058
Grants	22,272	—	—	22,272
Advances to Other Agencies	4,373	10	—	4,383
Land Held for Resale	20,778	—	—	20,778
Prepaid Items	192	3	—	195
Restricted Cash and Investments	3,846	—	200	4,046
TOTAL ASSETS	$ 1,010,069	$ 10,598	$ 200	$ 1,020,867
LIABILITIES				
Accounts Payable	$ 37,673	$ —	$ —	$ 37,673
Accrued Wages and Benefits	379	—	—	379
Other Accrued Liabilities	65	1,194	—	1,259
Due to Other Funds	20,918	—	—	20,918
Due to Other Agencies	10	—	—	10
Unearned Revenue	2,721	2,094	—	4,815
Advances from Other Funds	—	733	—	733
TOTAL LIABILITIES	61,766	4,021	—	65,787
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Taxes	222	—	—	222
Unavailable Revenue - Grants	17,231	—	—	17,231
Unavailable Revenue - Other	6,194	—	—	6,194
TOTAL DEFERRED INFLOWS OF RESOURCES	23,647	—	—	23,647
FUND BALANCES				
Nonspendable	192	14	—	206
Restricted	890,415	5,723	200	896,338
Committed	51,299	840	—	52,139
Unassigned	(17,250)	—	—	(17,250)
TOTAL FUND BALANCES	924,656	6,577	200	931,433
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 1,010,069	$ 10,598	$ 200	$ 1,020,867

NONNONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	City of San Diego	Civic San Diego	Tobacco Settlement Revenue Funding	Total
REVENUES				
Property Taxes	$ 13,389	$ —	$ —	$ 13,389
Special Assessments	63,870	—	—	63,870
Transient Occupancy Taxes	109,959	—	—	109,959
Franchises	63,977	—	—	63,977
Licenses and Permits	14,521	—	—	14,521
Fines, Forfeitures and Penalties	1,449	—	—	1,449
Revenue from Use of Money and Property	24,276	9	1	24,286
Revenue from Federal Agencies	42,177	—	—	42,177
Revenue from Other Agencies	4,470	520	—	4,990
Revenue from Private Sources	4,852	—	—	4,852
Charges for Current Services	16,965	9,296	—	26,261
Other Revenue	3,335	3	—	3,338
TOTAL REVENUES	363,240	9,828	1	373,069
EXPENDITURES				
Current:				
General Government and Support	15,365	10,197	42	25,604
Public Safety - Police	6,414	—	—	6,414
Public Safety - Fire and Life Safety and Homeland Security	12,347	—	—	12,347
Parks, Recreation, Culture and Leisure	147,276	—	—	147,276
Transportation	33,110	—	—	33,110
Sanitation and Health	3,548	—	—	3,548
Neighborhood Services	64,251	—	—	64,251
Capital Outlay	44,725	301	—	45,026
Debt Service:				
Principal Retirement	325	—	—	325
Interest	178	—	—	178
TOTAL EXPENDITURES	327,539	10,498	42	338,079
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	35,701	(670)	(41)	34,990
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	24,927	—	200	25,127
Transfers to Proprietary Funds	(1,215)	—	—	(1,215)
Transfers to Other Funds	(80,180)	—	(159)	(80,339)
TOTAL OTHER FINANCING SOURCES (USES)	(56,468)	—	41	(56,427)
NET CHANGE IN FUND BALANCES	(20,767)	(670)	—	(21,437)
Fund Balances at Beginning of Year	945,423	7,247	200	952,870
FUND BALANCES AT END OF YEAR	$ 924,656	$ 6,577	$ 200	$ 931,433

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	City of San Diego		Civic San Diego	
	Actual on Budgetary Basis	Final Budget	Actual on Budgetary Basis	Final Budget
REVENUES				
Property Taxes	$ 13,253	$ 13,188	$ —	$ —
Special Assessments	16,589	16,579	—	—
Sales Taxes	9,435	9,204	—	—
Transient Occupancy Taxes	109,959	110,828	—	—
Franchises	79,864	74,594	—	—
Other Local Taxes	41,889	38,638	—	—
Licenses and Permits	14,521	14,053	—	—
Fines, Forfeitures and Penalties	17	—	—	—
Revenue from Use of Money and Property	15,765	10,174	3	1
Revenue from Federal Agencies	271	3,340	—	—
Revenue from Other Agencies	3,441	195	520	1,100
Revenue from Private Sources	3,129	1,430	—	—
Charges for Current Services	151,818	168,799	10,067	25,704
Other Revenue	1,246	1,464	—	—
TOTAL REVENUES	461,197	462,486	10,590	26,805
EXPENDITURES				
Current:				
General Government and Support	121,058	135,050	10,372	26,469
Public Safety - Police	3,197	4,832	—	—
Public Safety - Fire and Life Safety and Homeland Security	6,486	8,998	—	—
Parks, Recreation, Culture and Leisure	121,258	148,081	—	—
Transportation	78,786	164,985	—	—
Sanitation and Health	2,166	7,533	—	—
Neighborhood Services	4,794	5,366	—	—
Capital Outlay	38,263	—	301	301
Debt Service:				
Principal Retirement	1,440	1,441	—	—
Interest	38	38	—	—
TOTAL EXPENDITURES	377,486	476,324	10,673	26,770
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	83,711	(13,838)	(83)	35
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	34,901	36,828	—	—
Transfers to Other Funds	(117,703)	(121,737)	—	—
TOTAL OTHER FINANCING SOURCES (USES)	(82,802)	(84,909)	—	—
NET CHANGE IN FUND BALANCES	909	(98,747)	(83)	35
Prior Year Encumbrances	5,235	5,235	—	—
Fund Balances at Beginning of Year	236,656	236,656	6,571	6,571
FUND BALANCES AT END OF YEAR	$ 242,800	$ 143,144	$ 6,488	$ 6,606

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING BALANCE SHEET
June 30, 2018
(Dollars in Thousands)

	Budgeted			
	Acquisition, Improvement and Operations	SDCCU Stadium Operations	Transient Occupancy Tax	Underground Surcharge
ASSETS				
Cash and Investments	$ 27,835	$ 9,816	$ 3,028	$ 165,933
Receivables:				
Taxes - Net of Allowance for Uncollectibles	—	—	11,162	15,479
Accounts - Net of Allowance for Uncollectibles	234	446	2,016	—
Special Assessments	93	—	—	—
Notes	—	—	—	—
Loans	—	—	—	—
Accrued Interest	59	29	5	383
Grants	—	—	—	—
Advances to Other Agencies	542	—	—	—
Land Held for Resale	—	—	—	—
Prepaid Items	—	—	6	—
Restricted Cash and Investments	—	—	—	—
TOTAL ASSETS	$ 28,763	$ 10,291	$ 16,217	$ 181,795
LIABILITIES				
Accounts Payable	$ 2,053	$ 261	$ 3,808	$ 7,649
Accrued Wages and Benefits	132	82	44	52
Other Accrued Liabilities	44	3	—	—
Due to Other Funds	—	—	4,913	—
Due to Other Agencies	—	—	—	—
Unearned Revenue	—	—	—	—
TOTAL LIABILITIES	2,229	346	8,765	7,701
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Taxes	—	—	—	—
Unavailable Revenue - Grants	—	—	—	—
Unavailable Revenue - Other	234	446	1,316	—
TOTAL DEFERRED INFLOWS OF RESOURCES	234	446	1,316	—
FUND BALANCES				
Nonspendable	—	—	6	—
Restricted	22,726	—	—	174,094
Committed	3,574	9,499	6,130	—
Unassigned	—	—	—	—
TOTAL FUND BALANCES	26,300	9,499	6,136	174,094
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 28,763	$ 10,291	$ 16,217	$ 181,795

			Unbudgeted			
Zoological Exhibits	Other Special Revenue	Grants	Low-Moderate Income Housing	Other Special Revenue	Total
$ 8,166	$ 21,413	$ 2,460	$ 53,958	$ 185,100	$ 477,709
332	—	—	—	—	26,973
—	44	1	—	4,493	7,234
—	—	—	—	28	121
—	—	—	262,773	2,268	265,041
—	—	176,965	—	3,507	180,472
—	63	30	123	366	1,058
—	—	22,272	—	—	22,272
—	—	—	—	3,831	4,373
—	—	—	20,778	—	20,778
—	—	—	3	183	192
—	—	2,294	1,552	—	3,846
$ 8,498	$ 21,520	$ 204,022	$ 339,187	$ 199,776	$ 1,010,069
$ 8,166	$ 4,329	$ 6,096	$ 358	$ 4,953	$ 37,673
—	69	—	—	—	379
—	—	—	1	17	65
—	—	15,986	—	19	20,918
—	—	10	—	—	10
—	—	2,460	—	261	2,721
8,166	4,398	24,552	359	5,250	61,766
222	—	—	—	—	222
—	—	17,231	—	—	17,231
—	44	—	—	4,154	6,194
222	44	17,231	—	4,154	23,647
—	—	—	3	183	192
110	14,578	179,469	338,825	160,613	890,415
—	2,500	—	—	29,596	51,299
—	—	(17,230)	—	(20)	(17,250)
110	17,078	162,239	338,828	190,372	924,656
$ 8,498	$ 21,520	$ 204,022	$ 339,187	$ 199,776	$ 1,010,069

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Budgeted			
	Acquisition, Improvement and Operations	SDCCU Stadium Operations	Transient Occupancy Tax	Underground Surcharge
REVENUES				
Property Taxes	$ —	$ —	$ —	$ —
Special Assessments	16,589	—	—	—
Transient Occupancy Taxes	—	—	109,959	—
Franchises	—	—	—	63,872
Licenses and Permits	53	5	58	—
Fines, Forfeitures and Penalties	—	—	7	—
Revenue from Use of Money and Property	183	6,407	2,335	1,204
Revenue from Federal Agencies	—	—	—	—
Revenue from Other Agencies	—	—	—	—
Revenue from Private Sources	711	—	1,103	1,315
Charges for Current Services	5,278	1	—	—
Other Revenue	553	264	1	—
TOTAL REVENUES	23,367	6,677	113,463	66,391
EXPENDITURES				
Current:				
General Government and Support	3,574	—	—	—
Public Safety - Police	—	—	—	—
Public Safety - Fire and Life Safety and Homeland Security	—	—	—	—
Parks, Recreation, Culture and Leisure	17,637	10,040	63,065	—
Transportation	—	—	5	29,636
Sanitation and Health	—	—	—	—
Neighborhood Services	2,715	—	—	—
Capital Outlay	399	7	150	9,784
Debt Service:				
Principal Retirement	—	—	—	—
Interest	—	—	—	—
TOTAL EXPENDITURES	24,325	10,047	63,220	39,420
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(958)	(3,370)	50,243	26,971
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	2,045	7,091	4,216	2
Transfers to Proprietary Funds	—	—	—	—
Transfers to Other Funds	(700)	(13,230)	(56,449)	—
TOTAL OTHER FINANCING SOURCES (USES)	1,345	(6,139)	(52,233)	2
NET CHANGE IN FUND BALANCES	387	(9,509)	(1,990)	26,973
Fund Balances at Beginning of Year	25,913	19,008	8,126	147,121
FUND BALANCES AT END OF YEAR	$ 26,300	$ 9,499	$ 6,136	$ 174,094

			Unbudgeted			
Zoological Exhibits	Other Special Revenue	Grants	Low-Moderate Income Housing	Other Special Revenue	Total
$ 13,253	$ —	$ —	$ —	$ 136	$ 13,389
—	—	—	—	47,281	63,870
—	—	—	—	—	109,959
—	—	—	—	105	63,977
—	14,405	—	—	—	14,521
—	—	—	—	1,442	1,449
—	284	249	3,363	10,251	24,276
—	271	41,906	—	—	42,177
—	3,171	1,297	—	2	4,470
—	—	—	92	1,631	4,852
—	2,011	—	—	9,675	16,965
—	13	756	1,474	274	3,335
13,253	20,155	44,208	4,929	70,797	363,240
—	4,881	5,469	—	1,441	15,365
—	3,197	2,840	—	377	6,414
—	604	11,638	—	105	12,347
13,897	262	161	—	42,214	147,276
—	3,309	139	—	21	33,110
—	2,093	1,432	—	23	3,548
—	2,079	36,532	1,902	21,023	64,251
—	6,274	23,899	—	4,212	44,725
—	—	—	—	325	325
—	—	—	—	178	178
13,897	22,699	82,110	1,902	69,919	327,539
(644)	(2,544)	(37,902)	3,027	878	35,701
—	166	2,000	—	9,407	24,927
—	—	—	—	(1,215)	(1,215)
—	(6,505)	—	—	(3,296)	(80,180)
—	(6,339)	2,000	—	4,896	(56,468)
(644)	(8,883)	(35,902)	3,027	5,774	(20,767)
754	25,961	198,141	335,801	184,598	945,423
$ 110	$ 17,078	$ 162,239	$ 338,828	$ 190,372	$ 924,656

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Acquisition, Improvement and Operations			SDCCU Stadium Operations		
	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Postitive (Negative)
REVENUES						
Property Taxes	$ —	$ —	$ —	$ —	$ —	$ —
Special Assessments	16,589	16,579	10	—	—	—
Sales Taxes	—	—	—	—	—	—
Transient Occupancy Taxes	—	—	—	—	—	—
Franchises	—	—	—	—	—	—
Other Local Taxes	—	—	—	—	—	—
Licenses and Permits	53	50	3	5	8	(3)
Fines, Forfeitures and Penalties	—	—	—	—	—	—
Revenue from Use of Money and Property	283	80	203	6,446	2,973	3,473
Revenue from Federal Agencies	—	—	—	—	—	—
Revenue from Other Agencies	—	—	—	—	—	—
Revenue from Private Sources	711	—	711	—	—	—
Charges for Current Services	5,278	5,513	(235)	1	49	(48)
Other Revenue	633	—	633	264	1	263
TOTAL REVENUES	23,547	22,222	1,325	6,716	3,031	3,685
EXPENDITURES						
Current:						
General Government and Support	3,574	4,293	719	—	—	—
Public Safety - Police	—	—	—	—	—	—
Public Safety - Fire and Life Safety and Homeland Security	—	—	—	—	—	—
Parks, Recreation, Culture and Leisure	17,851	36,415	18,564	10,040	11,422	1,382
Transportation	—	—	—	—	—	—
Sanitation and Health	—	—	—	—	—	—
Neighborhood Services	2,715	2,716	1	—	—	—
Capital Outlay	399	—	(399)	7	—	(7)
Debt Service:					—	
Principal Retirement	—	—	—	—	—	—
Interest	—	—	—	—	—	—
TOTAL EXPENDITURES	24,539	43,424	18,885	10,047	11,422	1,375
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(992)	(21,202)	20,210	(3,331)	(8,391)	5,060
OTHER FINANCING SOURCES (USES)						
Transfers from Other Funds	2,045	1,983	62	7,091	10,814	(3,723)
Transfers to Other Funds	(700)	(892)	192	(13,230)	(13,255)	25
TOTAL OTHER FINANCING SOURCES (USES)	1,345	1,091	254	(6,139)	(2,441)	(3,698)
NET CHANGE IN FUND BALANCES	353	(20,111)	20,464	(9,470)	(10,832)	1,362
Prior Year Encumbrances	438	438	—	—	—	—
Fund Balances at Beginning of Year	25,077	25,077	—	19,050	19,050	—
FUND BALANCES AT END OF YEAR	$ 25,868	$ 5,404	$ 20,464	$ 9,580	$ 8,218	$ 1,362

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

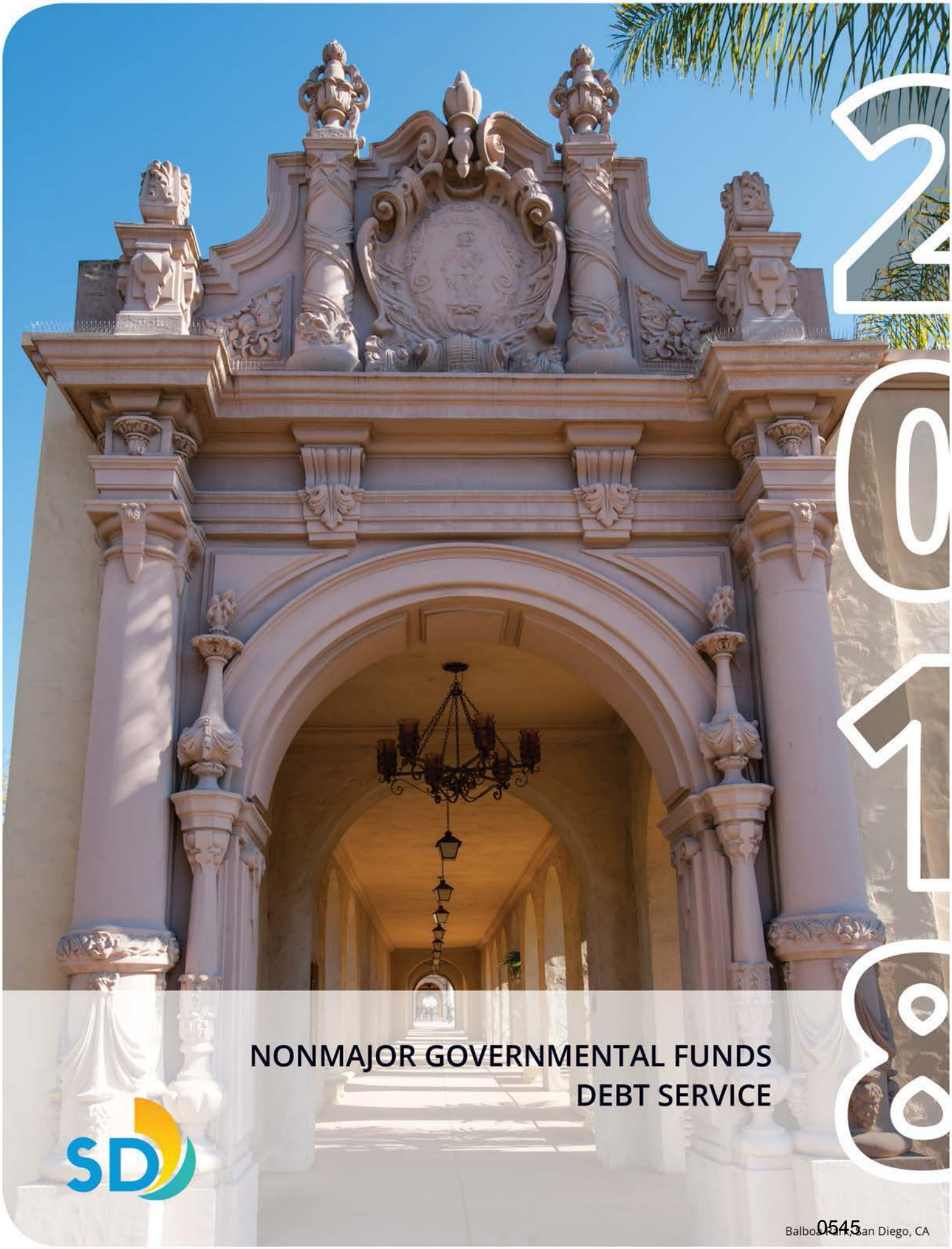
	Transient Occupancy Tax			Underground Surcharge		
	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES						
Property Taxes	$ —	$ —	$ —	$ —	$ —	$ —
Special Assessments	—	—	—	—	—	—
Sales Taxes	—	—	—	—	—	—
Transient Occupancy Taxes	109,959	110,828	(869)	—	—	—
Franchises	—	—	—	63,872	59,750	4,122
Other Local Taxes	—	—	—	—	—	—
Licenses and Permits	58	75	(17)	—	—	—
Fines, Forfeitures and Penalties	7	—	7	—	—	—
Revenue from Use of Money and Property	2,346	1,852	494	1,955	814	1,141
Revenue from Federal Agencies	—	—	—	—	—	—
Revenue from Other Agencies	—	—	—	—	—	—
Revenue from Private Sources	1,103	1,430	(327)	1,315	—	1,315
Charges for Current Services	—	—	—	—	—	—
Other Revenue	1	—	1	—	—	—
TOTAL REVENUES	113,474	114,185	(711)	67,142	60,564	6,578
EXPENDITURES						
Current:						
General Government and Support	—	—	—	—	2,289	2,289
Public Safety - Police	—	—	—	—	—	—
Public Safety - Fire and Life Safety and Homeland Security	—	—	—	—	—	—
Parks, Recreation, Culture and Leisure	63,065	66,022	2,957	—	—	—
Transportation	5	5	—	29,636	84,324	54,688
Sanitation and Health	—	—	—	—	—	—
Neighborhood Services	—	—	—	—	—	—
Capital Outlay	150	—	(150)	14,660	—	(14,660)
Debt Service:						
Principal Retirement	—	—	—	—	—	—
Interest	—	—	—	—	—	—
TOTAL EXPENDITURES	63,220	66,027	2,807	44,296	86,613	42,317
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	50,254	48,158	2,096	22,846	(26,049)	48,895
OTHER FINANCING SOURCES (USES)						
Transfers from Other Funds	4,216	4,671	(455)	2	—	2
Transfers to Other Funds	(56,449)	(56,938)	489	—	—	—
TOTAL OTHER FINANCING SOURCES (USES)	(52,233)	(52,267)	34	2	—	2
NET CHANGE IN FUND BALANCES	(1,979)	(4,109)	2,130	22,848	(26,049)	48,897
Prior Year Encumbrances	—	—	—	4,797	4,797	—
Fund Balances at Beginning of Year	8,132	8,132	—	142,324	142,324	—
FUND BALANCES AT END OF YEAR	$ 6,153	$ 4,023	$ 2,130	$ 169,969	$ 121,072	$ 48,897

(Continued on Next Page)

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Zoological Exhibits			Other Special Revenue [1]		
	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual on Budgetary Basis	Final Budget	Variance with FInal Budget Positive (Negative)
REVENUES						
Property Taxes	$ 13,253	$ 13,188	$ 65	$ —	$ —	$ —
Special Assessments	—	—	—	—	—	—
Sales Taxes	—	—	—	9,435	9,204	231
Transient Occupancy Taxes	—	—	—	—	—	—
Franchises	—	—	—	15,992	14,844	1,148
Other Local Taxes	—	—	—	41,889	38,638	3,251
Licenses and Permits	—	—	—	14,405	13,920	485
Fines, Forfeitures and Penalties	—	—	—	10	—	10
Revenue from Use of Money and Property	—	—	—	4,735	4,455	280
Revenue from Federal Agencies	—	—	—	271	3,340	(3,069)
Revenue from Other Agencies	—	—	—	3,441	195	3,246
Revenue from Private Sources	—	—	—	—	—	—
Charges for Current Services	—	—	—	146,539	163,237	(16,698)
Other Revenue	—	—	—	348	1,463	(1,115)
TOTAL REVENUES	13,253	13,188	65	237,065	249,296	(12,231)
EXPENDITURES						
Current:						
General Government and Support	—	—	—	117,484	128,468	10,984
Public Safety - Police	—	—	—	3,197	4,832	1,635
Public Safety - Fire and Life Safety and Homeland Security	—	—	—	6,486	8,998	2,512
Parks, Recreation, Culture and Leisure	13,897	13,897	—	16,405	20,325	3,920
Transportation	—	—	—	49,145	80,656	31,511
Sanitation and Health	—	—	—	2,166	7,533	5,367
Neighborhood Services	—	—	—	2,079	2,650	571
Capital Outlay	—	—	—	23,047	—	(23,047)
Debt Service:					—	
Principal Retirement	—	—	—	1,440	1,441	1
Interest	—	—	—	38	38	—
TOTAL EXPENDITURES	13,897	13,897	—	221,487	254,941	33,454
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(644)	(709)	65	15,578	(5,645)	21,223
OTHER FINANCING SOURCES (USES)						
Transfers from Other Funds	—	—	—	21,547	19,360	2,187
Transfers to Other Funds	—	—	—	(47,324)	(50,652)	3,328
TOTAL OTHER FINANCING SOURCES (USES)	—	—	—	(25,777)	(31,292)	5,515
NET CHANGE IN FUND BALANCES	(644)	(709)	65	(10,199)	(36,937)	26,738
Prior Year Encumbrances	—	—	—	—	—	—
Fund Balances at Beginning of Year	754	754	—	41,319	41,319	—
FUND BALANCES AT END OF YEAR	$ 110	$ 45	$ 65	$ 31,120	$ 4,382	$ 26,738

[1] Amounts include funds that do not meet the criteria to be classified as special revenue funds pursuant to GASB Statement No. 54, which are included with the General Fund in the Governmental Funds financial statements prepared on a GAAP basis.



NONMAJOR GOVERNMENTAL FUNDS
DEBT SERVICE

Balboa Park, San Diego, CA

DEBT SERVICE FUNDS

Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for general long-term debt principal, interest, and related costs.

BLENDED COMPONENT UNITS

CONVENTION CENTER EXPANSION FINANCING AUTHORITY (CCEFA)

This fund was established to account for the debt service activities of the CCEFA. CCEFA, created by the City and the Port of San Diego, facilitates the financing, acquisition and construction of an expansion to the San Diego Convention Center. CCEFA's debt service fund is used to account for the payment of long-term debt principal and interest.

PUBLIC FACILITIES FINANCING AUTHORITY (PFFA)

This fund was established to account for the debt service activities of the PFFA. PFFA, a joint powers authority consisting of the City, the Successor Agency and the Housing Authority of the City of San Diego, facilitates the financing, acquisition and construction of public capital facility improvements. PFFA's debt service fund is used to account for the payment of long-term debt principal and interest.

TOBACCO SETTLEMENT REVENUE FUNDING CORPORATION (TSRFC)

This fund was established to account for the debt service activities of the TSRFC. TSRFC was established for the purpose of acquiring the tobacco settlement revenues allocated to the City from the State of California, pursuant to the Master Settlement Agreement. The TSRFC's debt service fund is used to account for the payment of long-term debt principal and interest.

NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
COMBINING BALANCE SHEET
June 30, 2018
(Dollars in Thousands)

	Convention Center Expansion Financing Authority	Public Facilities Financing Authority	Tobacco Settlement Revenue Funding Corporation	Total
ASSETS				
Cash and Investments	$ —	$ 4	$ 1	$ 5
Receivables:				
Accounts	—	—	4,718	4,718
Accrued Interest	—	10	2	12
Restricted Cash and Investments	—	213	11,926	12,139
TOTAL ASSETS	$ —	$ 227	$ 16,647	$ 16,874
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Other	$ —	$ —	$ 4,718	$ 4,718
FUND BALANCES				
Restricted	—	227	11,929	12,156
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ —	$ 227	$ 16,647	$ 16,874

NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Convention Center Expansion Financing Authority	Public Facilities Financing Authority	Tobacco Settlement Revenue Funding Corporation	Total
REVENUES				
Revenue from Use of Money and Property	$ —	$ 138	$ 520	$ 658
Revenue from Other Agencies	—	—	10,952	10,952
TOTAL REVENUES	—	138	11,472	11,610
EXPENDITURES				
Debt Service:				
Principal Retirement	7,510	16,525	8,910	32,945
Cost of Issuance	—	438	1,062	1,500
Interest	5,046	31,660	10,307	47,013
Payment to Refunded Bond Escrow Agent	—	13,125	—	13,125
TOTAL EXPENDITURES	12,556	61,748	20,279	94,583
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(12,556)	(61,610)	(8,807)	(82,973)
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	12,556	38,995	159	51,710
Transfers to Other Funds	—	—	(661)	(661)
Payment to Refunded Bond Escrow Agent	—	(119,425)	(64,320)	(183,745)
Revenue Bonds Issued	—	129,320	—	129,320
Tobacco Settlement Bonds Issued	—	—	73,784	73,784
Discount on Bonds Issued	—	(204)	—	(204)
TOTAL OTHER FINANCING SOURCES (USES)	12,556	48,686	8,962	70,204
NET CHANGE IN FUND BALANCES	—	(12,924)	155	(12,769)
Fund Balances at Beginning of Year	—	13,151	11,774	24,925
FUND BALANCES AT END OF YEAR	$ —	$ 227	$ 11,929	$ 12,156

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NONMAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS

Japanese Garden, Balboa Park, San Diego, CA

CAPITAL PROJECTS FUNDS

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for the acquisition or construction of major capital facilities.

CITY OF SAN DIEGO

TRANSNET - BUDGETED

This fund was established to account for transportation improvements funded by the 2009 extension of a local sales tax approved by voters in the County of San Diego. Funds are used to relieve traffic congestion, increase safety, and improve air quality by performing repairs, restorations, and construction of needed facilities within the public rights-of-way.

CAPITAL OUTLAY - BUDGETED

This fund was established to account for capital improvements per Sections 55.2 and 77 of the City Charter. This fund includes a variety of capital projects including, but not limited to, building improvements to city facilities, park improvements, and street improvements. Revenues in this fund are derived from the sale of City-owned real property and Mission Bay Park lease revenues.

CAPITAL GRANTS - UNBUDGETED

This fund was established to account for capital grants from Federal, State and other governmental agencies.

PARKS & RECREATION DISTRICTS - UNBUDGETED

This fund was established to account for park fees collected at the time of subdivision or permit issuance and is mandated per the City of San Diego Municipal Code. Fee assessments are only to be used for park purposes within a Community Park Service District to purchase land, facilities, or reimburse those who have donated more than their proportionate responsibilities.

FACILITIES BENEFIT ASSESSMENTS - UNBUDGETED

This fund was established to account for building permit fees collected at the time of permit issuance and is mandated by the City Charter. Fee assessments are only to be used in the community the assessments are collected and are the primary source of project funding, excluding maintenance costs.

IMPACT FEES - UNBUDGETED

This fund was established to account for building permit fees collected at the time of permit issuance and has specific State reporting requirements. Fee assessments are only to be used in the community the assessments are collected and are not the primary source of project funding and exclude maintenance costs.

SPECIAL ASSESSMENT/SPECIAL TAX BONDS - UNBUDGETED

This fund was established to account for Community Facilities Districts and Special Assessment Districts, which under various sections of State law, issue limited obligation bonds to finance infrastructure facilities and other public improvements necessary to facilitate development of the properties within each district. The bonds are secured solely by the properties within each district, and are repaid through revenues generated by the annual levy of special taxes or special assessments on the benefiting properties.

TRANSNET - UNBUDGETED

This fund was established to account for transportation improvements funded by local sales tax approved by voters in the County of San Diego, as well as developer impact fees under the SANDAG administered TransNet Program. Funds are used to relieve traffic congestion, increase safety, and improve air quality by performing repairs, restorations, and construction of needed facilities within the public rights-of-way.

CAPITAL OUTLAY - UNBUDGETED

This fund was established to account for the acquisition, construction and completion of permanent public improvements and real property. This fund also accounts for a variety of capital projects including, but not limited to, park and street improvements, and the construction of public facilities in new development areas. Revenues in this fund are derived from developer contributions, private donations, special assessments, special taxes, fees, leases, and interest derived there from.

BLENDED COMPONENT UNITS

PUBLIC FACILITIES FINANCING AUTHORITY (PFFA)

This fund was established to account for the capital improvement acquisition and construction activities of the Public Facilities Financing Authority (PFFA). PFFA, which was created by the City and the former Redevelopment Agency, facilitates the financing and construction of public capital improvements. PFFA's current members are the City, the Successor Agency and the Housing Authority of the City of San Diego. Revenues are derived from the issuance of bonds and interest earnings on investments.

TOBACCO SETTLEMENT REVENUE FUNDING CORPORATION (TSRFC)

This fund was established to account for the capital improvement activities of the TSRFC. TSRFC was established for the purpose of acquiring the tobacco settlement revenues allocated to the City from the State of California, pursuant to the Master Settlement Agreement.

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NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING BALANCE SHEET
June 30, 2018
(Dollars in Thousands)

	City of San Diego	Public Facilities Financing Authority	Tobacco Settlement Revenue Funding Corporation	Total
ASSETS				
Cash and Investments	$ 658,259	$ —	$ 900	$ 659,159
Receivables:				
Taxes - Net of Allowance for Uncollectibles	32,752	—	—	32,752
Accounts - Net of Allowance for Uncollectibles	5,267	—	—	5,267
Claims	30,380	—	—	30,380
Loans	—	—	—	—
Accrued Interest	1,295	7	74	1,376
Grants	3,926	—	—	3,926
Advances to Other Agencies	11	—	—	11
Restricted Cash and Investments	16,654	9,256	22,597	48,507
TOTAL ASSETS	$ 748,544	$ 9,263	$ 23,571	$ 781,378
LIABILITIES				
Accounts Payable	$ 26,335	$ 3,285	$ —	$ 29,620
Due to Other Funds	2,781	3,418	—	6,199
Due to Other Agencies	13	—	—	13
Unearned Revenue	17,775	—	—	17,775
TOTAL LIABILITIES	46,904	6,703	—	53,607
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Taxes	32,558	—	—	32,558
Unavailable Revenue - Grants	2,209	—	—	2,209
Unavailable Revenue - Other	2,348	—	—	2,348
TOTAL DEFERRED INFLOWS OF RESOURCES	37,115	—	—	37,115
FUND BALANCES				
Restricted	643,544	4,033	23,571	671,148
Committed	45,772	—	—	45,772
Unassigned	(24,791)	(1,473)	—	(26,264)
TOTAL FUND BALANCES	664,525	2,560	23,571	690,656
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 748,544	$ 9,263	$ 23,571	$ 781,378

NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	City of San Diego	Public Facilities Financing Authority	Tobacco Settlement Revenue Funding Corporation	Total
REVENUES				
Sales Taxes	$ 31,702	$ —	$ —	$ 31,702
Licenses and Permits	71,995	—	—	71,995
Revenue from Use of Money and Property	5,558	409	106	6,073
Revenue from Federal Agencies	10,106	—	—	10,106
Revenue from Other Agencies	9,716	—	—	9,716
Revenue from Private Sources	2,593	—	—	2,593
Charges for Current Services	77	—	—	77
Other Revenue	730	—	—	730
TOTAL REVENUES	132,477	409	106	132,992
EXPENDITURES				
Current:				
General Government and Support	3,931	—	—	3,931
Parks, Recreation, Culture and Leisure	7,202	—	—	7,202
Transportation	20,982	2	—	20,984
Sanitation and Health	580	1	—	581
Neighborhood Services	77	—	—	77
Capital Outlay	129,613	43,402	606	173,621
Debt Service:				
Principal Retirement	633	—	—	633
Interest	90	—	—	90
TOTAL EXPENDITURES	163,108	43,405	606	207,119
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(30,631)	(42,996)	(500)	(74,127)
OTHER FINANCING SOURCES (USES)				
Transfers from Proprietary Funds	61	—	—	61
Transfers from Other Funds	18,932	—	—	18,932
Transfers to Other Funds	(15,695)	(1,445)	—	(17,140)
Proceeds from the Sale of Capital Assets	2,037	—	—	2,037
Capital Lease Proceeds	16,191	—	—	16,191
Tobacco Settlement Bonds Issued	—	—	24,071	24,071
TOTAL OTHER FINANCING SOURCES (USES)	21,526	(1,445)	24,071	44,152
NET CHANGE IN FUND BALANCES	(9,105)	(44,441)	23,571	(29,975)
Fund Balances at Beginning of Year	673,630	47,001	—	720,631
FUND BALANCES AT END OF YEAR	$ 664,525	$ 2,560	$ 23,571	$ 690,656

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING BALANCE SHEET
June 30, 2018
(Dollars in Thousands)

	Budgeted	
	TransNet	Capital Outlay
ASSETS		
Cash and Investments	$ 4,159	$ 85,721
Receivables:		
Taxes - Net of Allowance for Uncollectibles	32,752	—
Accounts - Net of Allowance for Uncollectibles	—	1,565
Claims	—	—
Accrued Interest	11	102
Grants	—	—
Advances to Other Agencies	—	—
Restricted Cash and Investments	—	—
TOTAL ASSETS	$ 36,922	$ 87,388
LIABILITIES		
Accounts Payable	$ 4,314	$ 2,779
Due to Other Funds	—	—
Due to Other Agencies	—	—
Unearned Revenue	—	—
TOTAL LIABILITIES	4,314	2,779
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue - Taxes	32,558	—
Unavailable Revenue - Grants	—	—
Unavailable Revenue - Other	—	—
TOTAL DEFERRED INFLOWS OF RESOURCES	32,558	—
FUND BALANCES		
Restricted	50	84,609
Committed	—	—
Unassigned	—	—
TOTAL FUND BALANCES (DEFICIT)	50	84,609
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 36,922	$ 87,388

Unbudgeted							
Capital Grants	Parks & Recreation Districts	Facilities Benefit Assessments	Impact Fees	Special Assessment/ Special Tax Bonds	TransNet	Capital Outlay	Total
$ 26	$ 4,411	$ 270,670	$ 149,596	$ 477	$ 22,208	$ 120,991	$ 658,259
—	—	—	—	—	—	—	32,752
—	—	—	41	—	17	3,644	5,267
—	—	—	—	—	—	30,380	30,380
—	10	621	341	1	50	159	1,295
3,926	—	—	—	—	—	—	3,926
—	—	—	—	—	—	11	11
—	—	—	—	—	—	16,654	16,654
$ 3,952	$ 4,421	$ 271,291	$ 149,978	$ 478	$ 22,275	$ 171,839	$ 748,544
$ 1,132	$ 4	$ 4,047	$ 1,998	$ —	$ 99	$ 11,962	$ 26,335
2,781	—	—	—	—	—	—	2,781
13	—	—	—	—	—	—	13
26	—	—	—	—	249	17,500	17,775
3,952	4	4,047	1,998	—	348	29,462	46,904
—	—	—	—	—	—	—	32,558
2,209	—	—	—	—	—	—	2,209
—	—	—	41	—	17	2,290	2,348
2,209	—	—	41	—	17	2,290	37,115
—	4,417	267,244	147,939	478	21,910	116,897	643,544
—	—	—	—	—	—	45,772	45,772
(2,209)	—	—	—	—	—	(22,582)	(24,791)
(2,209)	4,417	267,244	147,939	478	21,910	140,087	664,525
$ 3,952	$ 4,421	$ 271,291	$ 149,978	$ 478	$ 22,275	$ 171,839	$ 748,544

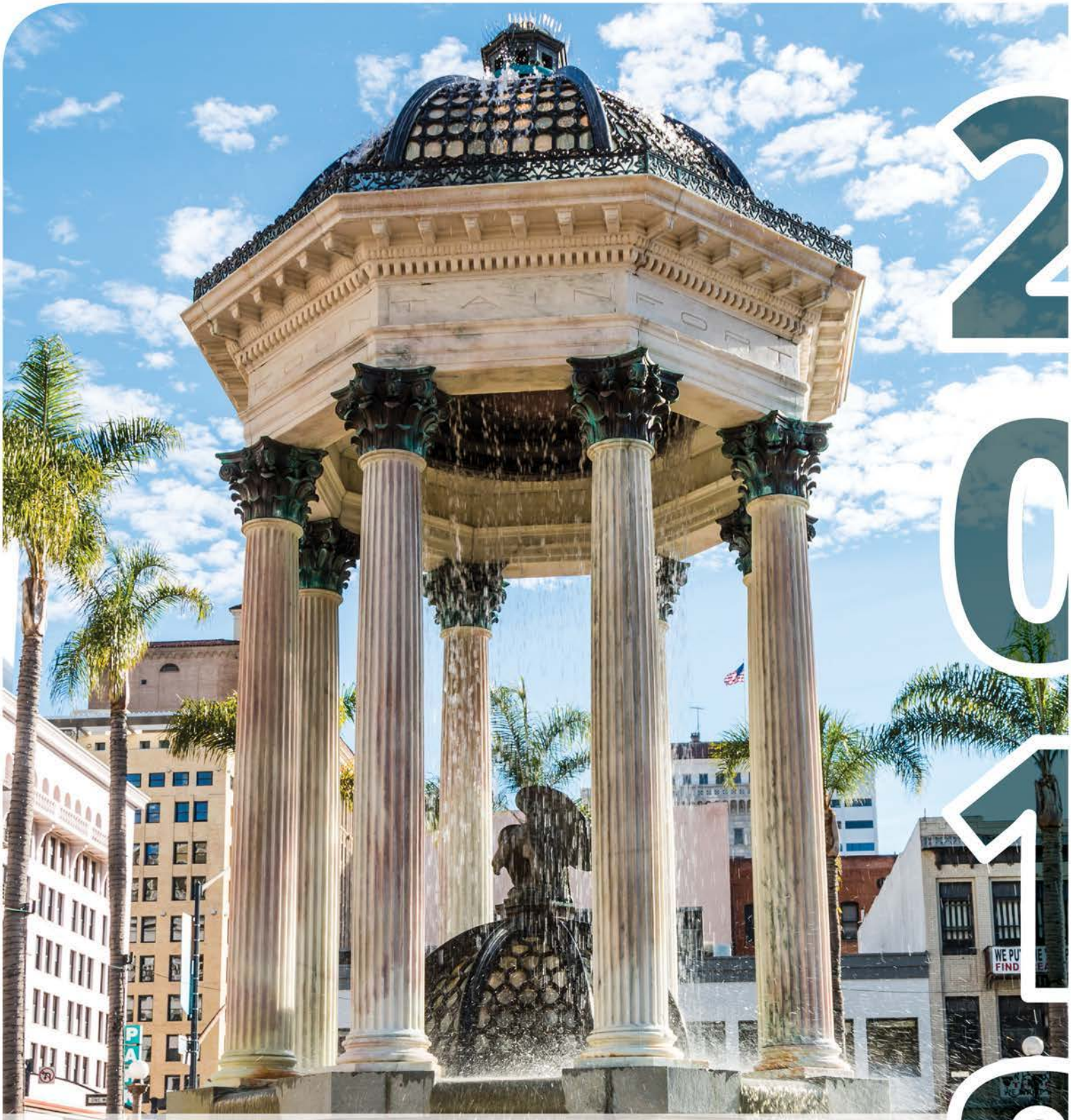
CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Budgeted	
	TransNet	Capital Outlay
REVENUES		
Sales Taxes	$ 31,702	$ —
Licenses and Permits	—	—
Revenue from Use of Money and Property	46	429
Revenue from Federal Agencies	—	—
Revenue from Other Agencies	—	—
Revenue from Private Sources	—	—
Charges for Current Services	—	—
Other Revenue	—	—
TOTAL REVENUES	31,748	429
EXPENDITURES		
Current:		
General Government and Support	289	—
Parks, Recreation, Culture and Leisure	—	6,962
Transportation	6,244	—
Sanitation and Health	—	1
Neighborhood Services	—	—
Capital Outlay	19,079	5,548
Debt Service:		
Principal Retirement	—	—
Interest	—	—
TOTAL EXPENDITURES	25,612	12,511
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	6,136	(12,082)
OTHER FINANCING SOURCES (USES)		
Transfers from Proprietary Funds	—	—
Transfers from Other Funds	—	12,637
Transfers to Other Funds	(9,644)	(6,051)
Proceeds from the Sale of Capital Assets	—	2,037
Capital Lease Proceeds	—	—
TOTAL OTHER FINANCING SOURCES (USES)	(9,644)	8,623
NET CHANGE IN FUND BALANCES	(3,508)	(3,459)
Fund Balances (Deficit) at Beginning of Year	3,558	88,068
FUND BALANCES (DEFICIT) AT END OF YEAR	$ 50	$ 84,609

Unbudgeted							
Capital Grants	Parks & Recreation Districts	Facilities Benefit Assessments	Impact Fees	Special Assessment/ Spcial Tax Bonds	TransNet	Capital Outlay	Total
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 31,702
—	—	33,451	32,159	—	6,312	73	71,995
—	39	2,268	1,184	4	169	1,419	5,558
10,106	—	—	—	—	—	—	10,106
8,425	—	—	—	—	—	1,291	9,716
—	—	—	—	—	—	2,593	2,593
—	—	—	—	—	—	77	77
—	—	—	—	—	—	730	730
18,531	39	35,719	33,343	4	6,481	6,183	132,477
—	—	1,404	1,694	—	122	422	3,931
—	—	52	21	—	—	167	7,202
—	—	663	—	—	20	14,055	20,982
—	—	106	—	—	—	473	580
—	—	8	—	—	—	69	77
11,137	334	28,588	15,839	—	4,890	44,198	129,613
—	—	—	—	—	—	633	633
—	—	—	—	—	—	90	90
11,137	334	30,821	17,554	—	5,032	60,107	163,108
7,394	(295)	4,898	15,789	4	1,449	(53,924)	(30,631)
—	—	—	—	—	—	61	61
52	—	—	—	—	—	6,243	18,932
—	—	—	—	—	—	—	(15,695)
—	—	—	—	—	—	—	2,037
—	—	—	—	—	—	16,191	16,191
52	—	—	—	—	—	22,495	21,526
7,446	(295)	4,898	15,789	4	1,449	(31,429)	(9,105)
(9,655)	4,712	262,346	132,150	474	20,461	171,516	673,630
$ (2,209)	$ 4,417	$ 267,244	$ 147,939	$ 478	$ 21,910	$ 140,087	$ 664,525

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	TransNet			Capital Outlay		
	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES						
Sales Taxes	$ 31,702	$ 32,473	$ (771)	$ —	$ —	$ —
Revenue from Use of Money and Property	62	—	62	622	—	622
TOTAL REVENUES	31,764	32,473	(709)	622	—	622
EXPENDITURES						
Current:						
General Government and Support	289	307	18	—	11,109	11,109
Public Safety - Fire and Life Safety and Homeland Security	—	—	—	—	1,595	1,595
Parks, Recreation, Culture and Leisure	—	2,570	2,570	6,962	63,606	56,644
Transportation	6,244	48,999	42,755	—	4,010	4,010
Sanitation and Health	—	6,230	6,230	1	2,727	2,726
Neighborhood Services	—	(10)	(10)	—	8	8
Capital Outlay	31,546	—	(31,546)	15,142	—	(15,142)
TOTAL EXPENDITURES	38,079	58,096	20,017	22,105	83,055	60,950
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(6,315)	(25,623)	19,308	(21,483)	(83,055)	61,572
OTHER FINANCING SOURCES (USES)						
Transfers from Other Funds	—	—	—	12,637	11,157	1,480
Transfers to Other Funds	(9,644)	(9,644)	—	(6,051)	(6,051)	—
Proceeds from the Sale of Capital Assets	—	—	—	2,037	—	2,037
TOTAL OTHER FINANCING SOURCES (USES)	(9,644)	(9,644)	—	8,623	5,106	3,517
NET CHANGE IN FUND BALANCES	(15,959)	(35,267)	19,308	(12,860)	(77,949)	65,089
Prior Year Encumbrances	8,465	8,465	—	2,854	2,854	—
Fund Balances (Deficit) at Beginning of Year	(4,907)	(4,907)	—	85,214	85,214	—
FUND BALANCES (DEFICIT) AT END OF YEAR	$ (12,401)	$ (31,709)	$ 19,308	$ 75,208	$ 10,119	$ 65,089



NONMAJOR GOVERNMENTAL FUNDS
PERMANENT

Horton Plaza Fountain, Gaslamp Quarter, Downtown, San Diego, CA

PERMANENT FUNDS

Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs (i.e., for the benefit of the City or its citizens).

CARROLL CANYON VERNAL POOL MITIGATION

This fund was established to account for an endowment from the San Diego Unified School District (The District). The endowment is to be used to implement a Memorandum of Understanding between the City and the District for biological mitigation, park land and joint use facilities involving Salk Elementary School, McAuliffe Community Park, and the Carroll Canyon Vernal Pool Preserve.

CEMETERY PERPETUITY

This fund was established to account for the Mt. Hope Cemetery endowment. Investment earnings derived from the endowment supplement grave sales revenues in order to finance cemetery operations.

LIBRARY ENDOWMENTS

This fund includes the Effie Sergeant endowment, which was established to account for donations to benefit the North Park library branch, and the Scripps Ranch Library endowment. Investment earnings are used to finance library services and programs.

LOS PENASQUITOS CANYON

This fund was established to account for the Los Penasquitos Canyon Preserve Trust Fund. Investment earnings are used to finance operations, land acquisitions, historical restoration, and maintenance of the Penasquitos Preserve Park.

OTHER ENDOWMENTS

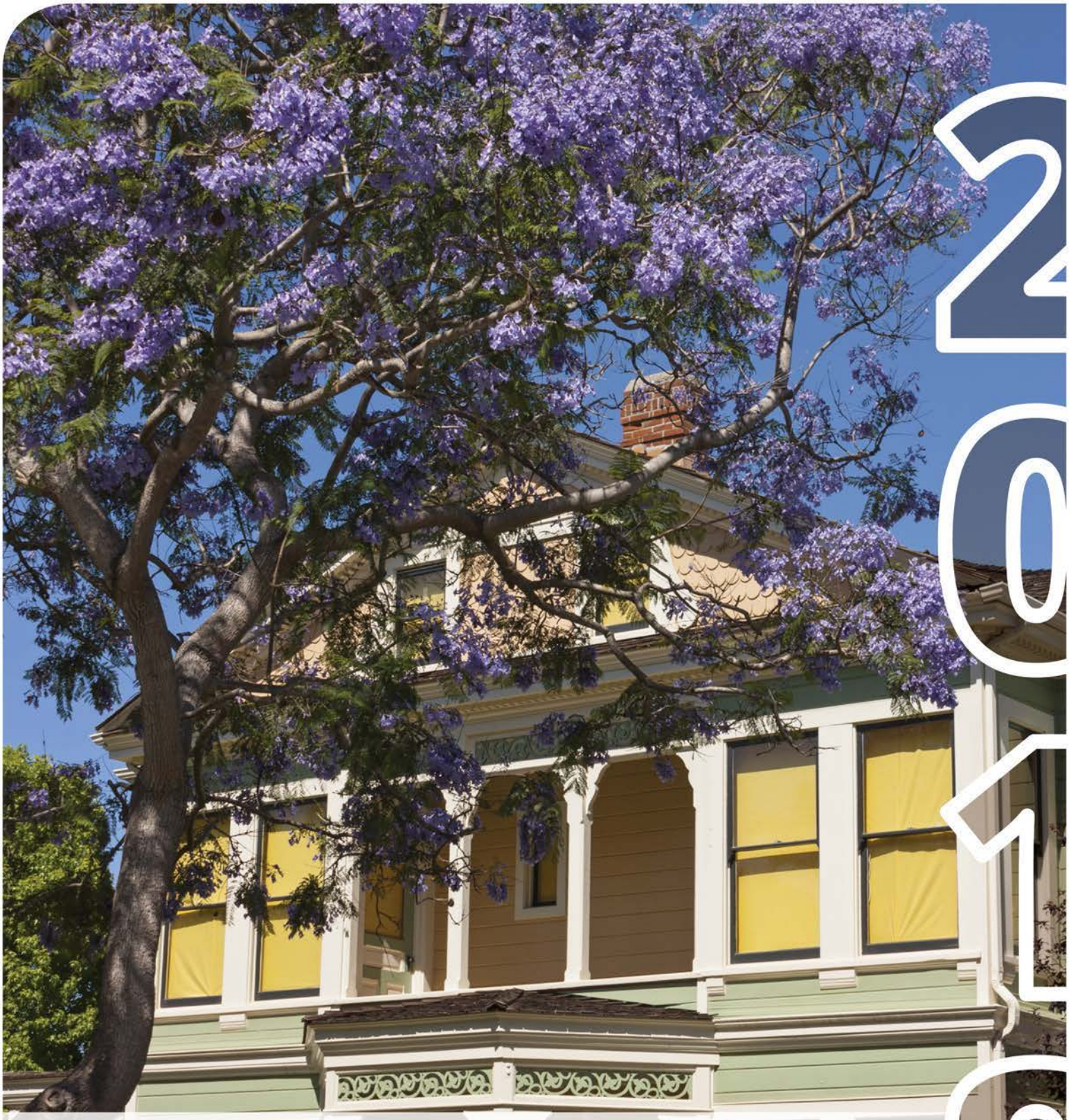
This fund includes several miscellaneous endowments, including, Carmel Valley Sewer Maintenance, Crescent Heights Habitat Management, Environmental Trust Bankruptcy Endowment, Figg Estate, Phillip Green Memorial Trust, Sycamore Estates, and the Zoological Society-Mission Trails.

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - PERMANENT
COMBINING BALANCE SHEET
June 30, 2018
(Dollars in Thousands)

	Carroll Canyon Vernal Pool Mitigation	Cemetery Perpetuity	Library Endowments	Los Penasquitos Canyon	Other Endowments	Total
ASSETS						
Receivables:						
Accrued Interest	$ 5	$ 4	$ 1	$ —	$ 4	$ 14
Restricted Cash and Investments	2,564	12,149	864	3,342	1,844	20,763
TOTAL ASSETS	$ 2,569	$ 12,153	$ 865	$ 3,342	$ 1,848	$ 20,777
LIABILITIES						
Accounts Payable	$ —	$ —	$ 4	$ —	$ —	$ 4
FUND BALANCES						
Nonspendable	2,482	12,153	388	1,000	1,813	17,836
Restricted	87	—	473	2,342	35	2,937
TOTAL FUND BALANCES	2,569	12,153	861	3,342	1,848	20,773
TOTAL LIABILITIES AND FUND BALANCES	$ 2,569	$ 12,153	$ 865	$ 3,342	$ 1,848	$ 20,777

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Carroll Canyon Vernal Pool Mitigation	Cemetery Perpetuity	Library Endowments	Los Penasquitos Canyon	Other Endowments	Total
REVENUES						
Revenue from Use of Money and Property	$ 21	$ 461	$ 40	$ 209	$ 4	$ 735
Revenue from Private Sources	—	—	—	—	678	678
Charges for Current Services	—	127	—	—	—	127
TOTAL REVENUES	21	588	40	209	682	1,540
EXPENDITURES						
Current:						
Parks, Recreation, Culture and Leisure	—	—	22	2	—	24
Sanitation and Health	—	71	—	—	—	71
TOTAL EXPENDITURES	—	71	22	2	—	95
EXCESS OF REVENUES OVER EXPENDITURES	21	517	18	207	682	1,445
OTHER FINANCING USES						
Transfers to Other Funds	—	(426)	—	(115)	—	(541)
NET CHANGE IN FUND BALANCES	21	91	18	92	682	904
Fund Balances at Beginning of Year	2,548	12,062	843	3,250	1,166	19,869
FUND BALANCES AT END OF YEAR	$ 2,569	$ 12,153	$ 861	$ 3,342	$ 1,848	$ 20,773



NONMAJOR BUSINESS-TYPE FUNDS
ENTERPRISE

Historic House, Old Town Heritage Park, San Diego, CA

ENTERPRISE FUNDS

Enterprise funds are used to account for any activity for which a fee is charged to external users for goods or services. These funds use full accrual accounting.

CITY OF SAN DIEGO

AIRPORTS

This fund was established to account for the operation, maintenance and development of both City-owned airports: Montgomery-Gibbs Executive Airport and Brown Field Municipal Airport. Airports Fund revenues are derived from such sources as rent/lease revenue, usage fees, earnings on investments, and aid from other governmental agencies.

DEVELOPMENT SERVICES

This fund was established to account for construction management, development project review, permitting, and inspection services for the City.

ENVIRONMENTAL SERVICES

This fund was established to account for refuse disposal, resource management, and other environmental programs.

GOLF COURSE

This fund was established to operate, maintain, and improve physical conditions and initiate capital improvement programs for Torrey Pines, Mission Bay, and Balboa golf courses. Revenues are derived from green fees and leases.

RECYCLING

This fund was established to account for the planning, implementation, operation and management of City recycling and waste diversion programs. Revenues are derived from the recycling fee on all waste generated in the City or disposed of at the City landfill.

BLENDED COMPONENT UNIT

SAN DIEGO CONVENTION CENTER CORPORATION

SDCCC is a not-for-profit public benefit corporation, originally organized to market, operate, and maintain the San Diego Convention Center. Revenues are derived mainly from building rents, food and beverage concessions, ancillary services, and contributions from the City of San Diego. Expenses include maintenance, operations, and capital projects for the Convention Center.

NONMAJOR BUSINESS-TYPE FUNDS - ENTERPRISE
COMBINING STATEMENT OF FUND NET POSITION
June 30, 2018
(Dollars in Thousands)

	Airports	Development Services	Environmental Services	Golf Course	Recycling	San Diego Convention Center Corporation	Total
ASSETS							
Current Assets:							
Cash and Investments	$ 14,544	$ 23,119	$ 60,655	$ 26,836	$ 31,638	$ 17,325	$ 174,117
Receivables:							
Accounts - Net of Allowance for Uncollectibles	948	1,946	1,076	645	3,700	6,547	14,862
Accrued Interest	68	132	438	133	198	—	969
Grants	4,909	—	—	—	187	—	5,096
Inventories	—	—	—	—	—	38	38
Total Current Assets	20,469	25,197	62,169	27,614	35,723	23,910	195,082
Non-Current Assets:							
Restricted Cash and Investments	76	7,975	32,274	—	11,551	3,211	55,087
Prepaid Expenses	—	2,626	—	—	—	597	3,223
Other Assets	—	—	—	—	—	706	706
Capital Assets - Non-Depreciable	2,286	5,640	13,107	2,541	—	2,971	26,545
Capital Assets - Depreciable	30,034	419	16,311	27,133	1,578	33,600	109,075
Total Non-Current Assets	32,396	16,660	61,692	29,674	13,129	41,085	194,636
TOTAL ASSETS	52,865	41,857	123,861	57,288	48,852	64,995	389,718
DEFERRED OUTFLOWS OF RESOURCES							
Deferred Outflows Related to Other Postemployment Benefits	60	1,227	388	278	271	—	2,224
Deferred Outflows Related to Pensions	742	21,560	8,354	3,393	5,005	—	39,054
TOTAL DEFERRED OUTFLOWS OF RESOURCES	802	22,787	8,742	3,671	5,276	—	41,278
LIABILITIES							
Current Liabilities:							
Accounts Payable	4,849	1,310	1,747	550	1,020	2,209	11,685
Accrued Wages and Benefits	54	1,508	435	241	282	—	2,520
Other Accrued Liabilities	—	—	—	—	—	2,853	2,853
Long-Term Liabilities Due Within One Year	62	3,253	645	270	414	1,200	5,844
Unearned Revenue	—	17,317	—	52	601	9,732	27,702
Current Liabilities Payable from Restricted Assets:							
Customer Deposits Payable	—	—	—	—	11,551	—	11,551
Total Current Liabilities	4,965	23,388	2,827	1,113	13,868	15,994	62,155

NONMAJOR BUSINESS-TYPE FUNDS - ENTERPRISE
COMBINING STATEMENT OF FUND NET POSITION
June 30, 2018
(Dollars in Thousands)

	Airports	Development Services	Environmental Services	Golf Course	Recycling	San Diego Convention Center Corporation	Total
Non-Current Liabilities:							
Non-Current Liabilities Payable from Restricted Assets:							
Deposits/Advances from Others	$ 76	$ 7,975	$ —	$ —	$ —	$ —	$ 8,051
Compensated Absences	47	1,271	404	170	169	—	2,061
Liability Claims	109	1,394	1,741	712	1,681	—	5,637
Capital Lease Obligations	—	2,339	—	—	—	—	2,339
Loans Payable	—	—	—	—	—	25,500	25,500
Notes Payable	—	—	—	—	—	9	9
Contracts Payable	—	1,481	—	—	—	—	1,481
Estimated Landfill Closure and Postclosure Care	—	—	53,003	—	—	—	53,003
Net Other Postemployment Benefits Liability	916	16,601	8,748	5,224	5,422	—	36,911
Pension Liabilities	2,755	75,439	32,640	15,001	19,869	—	145,704
Total Non-Current Liabilities	3,903	106,500	96,536	21,107	27,141	25,509	280,696
TOTAL LIABILITIES	8,868	129,888	99,363	22,220	41,009	41,503	342,851
DEFERRED INFLOWS OF RESOURCES							
Deferred Inflows Related to Other Postemployment Benefits	1	24	6	5	7	—	43
Deferred Inflows Related to Pensions	98	2,705	740	429	941	—	4,913
TOTAL DEFERRED INFLOWS OF RESOURCES	99	2,729	746	434	948	—	4,956
NET POSITION (DEFICIT)							
Net Investment in Capital Assets	32,320	2,595	29,418	29,674	1,578	13,647	109,232
Restricted for Closure/Postclosure Maintenance	—	—	5,698	—	—	—	5,698
Restricted for Other	—	—	—	—	—	827	827
Unrestricted (Deficit)	12,380	(70,568)	(2,622)	8,631	10,593	9,018	(32,568)
TOTAL NET POSITION (DEFICIT)	$ 44,700	$ (67,973)	$ 32,494	$ 38,305	$ 12,171	$ 23,492	$ 83,189

NONMAJOR BUSINESS-TYPE FUNDS - ENTERPRISE
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Airports	Development Services	Environmental Services	Golf Course	Recycling	San Diego Convention Center Corporation	Total
OPERATING REVENUES							
Charges for Services	$ 169	$ 69,361	$ 33,964	$ 21,801	$ 22,613	$ 15,619	$ 163,527
Revenue from Use of Property	4,701	—	161	1,533	177	18,637	25,209
Other	18	1,342	835	168	5,167	3,671	11,201
TOTAL OPERATING REVENUES	4,888	70,703	34,960	23,502	27,957	37,927	199,937
OPERATING EXPENSES							
Salaries and Employee Benefits	2,139	54,153	16,339	8,961	12,673	21,702	115,967
Materials and Supplies	177	1,968	1,617	1,369	1,467	606	7,204
Contractual Services	2,411	17,261	14,833	6,318	9,765	5,842	56,430
Information Technology	197	2,401	864	157	393	40	4,052
Energy and Utilities	205	731	1,274	2,024	734	4,111	9,079
Depreciation	2,211	30	1,303	1,833	125	2,315	7,817
Other Expenses	7	1,388	5,033	38	21	2,792	9,279
TOTAL OPERATING EXPENSES	7,347	77,932	41,263	20,700	25,178	37,408	209,828
OPERATING INCOME (LOSS)	(2,459)	(7,229)	(6,303)	2,802	2,779	519	(9,891)
NONOPERATING REVENUES (EXPENSES)							
Earnings on Investments	150	232	900	248	372	165	2,067
Federal Grant Assistance	467	—	—	—	—	—	467
Other Agency Grant Assistance	—	—	—	—	1,085	—	1,085
Loss on Sale/Retirement of Capital Assets	(62)	(1)	(161)	(351)	(6)	(6)	(587)
Debt Service Interest Expense	—	(194)	—	—	—	(572)	(766)
Other	1	2	133	11	90	811	1,048
TOTAL NONOPERATING REVENUES (EXPENSES), NET	556	39	872	(92)	1,541	398	3,314
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(1,903)	(7,190)	(5,431)	2,710	4,320	917	(6,577)
Capital Contributions	5,057	—	29	—	—	218	5,304
Transfers from Other Funds	—	—	—	—	573	—	573
Transfers from Governmental Funds	9	1,514	108	45	95	—	1,771
Transfers to Other Funds	—	—	(573)	—	—	—	(573)
Transfers to Governmental Funds	(1)	—	(16)	—	—	—	(17)
TOTAL CONTRIBUTIONS AND TRANSFERS	5,065	1,514	(452)	45	668	218	7,058
CHANGE IN NET POSITION	3,162	(5,676)	(5,883)	2,755	4,988	1,135	481
Net Position (Deficit) at Beginning of Year, as Restated	41,538	(62,297)	38,377	35,550	7,183	22,357	82,708
NET POSITION (DEFICIT) AT END OF YEAR	$ 44,700	$ (67,973)	$ 32,494	$ 38,305	$ 12,171	$ 23,492	$ 83,189

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NONMAJOR BUSINESS-TYPE FUNDS - ENTERPRISE
COMBINING STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Airports	Development Services	Environmental Services	Golf Course	Recycling	San Diego Convention Center Corporation	Total
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from Customers and Users	$ 4,474	$ 68,487	$ 33,511	$ 23,002	$ 25,935	$ 39,679	$ 195,088
Receipts from Interfund Services Provided	27	1,474	1,615	—	841	—	3,957
Payments to Suppliers	(3,065)	(22,923)	(19,794)	(10,531)	(15,145)	(12,716)	(84,174)
Payments to Employees	(1,822)	(45,133)	(13,358)	(7,006)	(7,722)	(21,404)	(96,445)
Payments for Interfund Services Used	(397)	(6,519)	(514)	(215)	(199)	—	(7,844)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(783)	(4,614)	1,460	5,250	3,710	5,559	10,582
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfers from Other Funds	—	—	—	—	573	—	573
Transfers from Governmental Funds	9	1,514	108	45	95	—	1,771
Transfers to Other Funds	—	—	(573)	—	—	—	(573)
Transfers to Governmental Funds	(1)	—	(16)	—	—	—	(17)
Operating Grants Received	638	—	—	—	899	—	1,537
Proceeds from Advances and Deposits	1	—	—	—	15	—	16
Payments for Advances and Deposits	—	(43)	—	—	—	—	(43)
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	647	1,471	(481)	45	1,582	—	3,264
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Proceeds from Capital Contributions	413	—	—	—	—	—	413
Proceeds from Sale of Capital Assets	—	—	—	—	—	31	31
Loans to Others	—	—	—	—	—	(575)	(575)
Acquisition of Capital Assets	(1,635)	(591)	(851)	(1,311)	(117)	(14,495)	(19,000)
Principal Payments on Capital Leases	—	(1,097)	—	—	—	—	(1,097)
Principal Payments on Notes	—	—	—	—	—	(2)	(2)
Interest Paid on Long-Term Debt	—	(194)	—	—	—	(1,055)	(1,249)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(1,222)	(1,882)	(851)	(1,311)	(117)	(16,096)	(21,479)
CASH FLOWS FROM INVESTING ACTIVITIES							
Purchase of Investments	—	—	—	—	—	(3,544)	(3,544)
Proceeds from Restricted Investments	—	—	—	—	—	16,745	16,745
Interest Received on Investments	129	199	743	184	294	166	1,715
NET CASH PROVIDED BY INVESTING ACTIVITIES	129	199	743	184	294	13,367	14,916
Net Increase (Decrease) in Cash and Cash Equivalents	(1,229)	(4,826)	871	4,168	5,469	2,830	7,283
Cash and Cash Equivalents at Beginning of Year	15,849	35,920	92,058	22,668	37,720	11,778	215,993
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 14,620	$ 31,094	$ 92,929	$ 26,836	$ 43,189	$ 14,608	$ 223,276

NONMAJOR BUSINESS-TYPE FUNDS - ENTERPRISE
COMBINING STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Airports	Development Services	Environmental Services	Golf Course	Recycling	San Diego Convention Center Corporation	Total
Reconciliation of Cash and Cash Equivalents at End of Year to the Statement of Net Position:							
Cash and Investments	$ 14,544	$ 23,119	$ 60,655	$ 26,836	$ 31,638	$ 17,325	$ 174,117
Restricted Cash and Investments	76	7,975	32,274	—	11,551	3,211	55,087
Less Investments not meeting the definition of cash equivalents	—	—	—	—	—	(5,928)	(5,928)
TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 14,620	$ 31,094	$ 92,929	$ 26,836	$ 43,189	$ 14,608	$ 223,276
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:							
Operating Income (Loss)	$ (2,459)	$ (7,229)	$ (6,303)	$ 2,802	$ 2,779	$ 519	$ (9,891)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:							
Depreciation	2,211	30	1,303	1,833	125	2,315	7,817
Other Nonoperating Revenue	1	2	133	11	90	811	1,048
(Increase) Decrease in Assets:							
Accounts Receivable - Net	(388)	(217)	33	(494)	(1,504)	1,826	(744)
Prepaid Expenses	—	901	—	—	—	34	935
Increase (Decrease) in Liabilities and Net Deferred Outflows/Inflows of Resources:							
Accounts Payable	(295)	(1,347)	165	75	(560)	647	(1,315)
Accrued Wages and Benefits	(1)	64	59	41	17	—	180
Other Accrued Liabilities	—	—	—	—	—	436	436
Unearned Revenue	—	(527)	—	(17)	233	(885)	(1,196)
Contracts Payable	—	(694)	—	—	—	—	(694)
Compensated Absences	18	(70)	(52)	25	43	(144)	(180)
Liability Claims	(23)	(151)	273	84	253	—	436
Estimated Landfill Closure and Postclosure Care	—	—	4,473	—	—	—	4,473
Net Other Postemployment Benefits Liability and Related Deferred Outflows/Inflows of Resources	5	20	(51)	(15)	92	—	51
Pension Liabilities and Related Deferred Outflows/ Inflows of Resources	148	4,604	1,427	905	2,142	—	9,226
Total Adjustments	1,676	2,615	7,763	2,448	931	5,040	20,473
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ (783)	$ (4,614)	$ 1,460	$ 5,250	$ 3,710	$ 5,559	$ 10,582
Noncash Investing, Capital, and Financing Activities:							
Acquisition of Capital Assets	$ —	$ 1,255	$ —	$ —	$ —	$ 218	$ 1,473
Capital Contributions Related to Grants Receivable	4,644	—	—	—	—	—	4,644
Capital Asset Acquisitions Related to Accounts Payable	4,524	—	184	125	(62)	646	5,417
Carrying Value of Retired Capital Assets	(62)	—	(161)	(351)	(6)	6	(574)
Capitalized Interest and Related Amounts	—	—	—	—	—	343	343
Transfers of Capital Assets to Governmental Activities	—	(1)	—	—	—	—	(1)
Transfers of Capital Assets From Other Funds	—	—	29	—	—	—	29

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INTERNAL SERVICE FUNDS

Balboa Park, San Diego, CA

INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units and/or funds.

CITY OF SAN DIEGO

FLEET OPERATIONS

This fund was established to account for the acquisition, replacement, maintenance and fueling of the City's motive equipment.

CENTRAL STORES

This fund was established to provide centralized storeroom services to all City departments.

PUBLISHING SERVICES

This fund was established to provide printing and reproduction services to all City departments.

MISCELLANEOUS INTERNAL SERVICE

This fund accounts for various administrative activities including risk management administration, energy conservation, public utilities inventory, and administration and operation of various employee related programs such as unused compensatory time, unused sick leave, unemployment insurance, and long-term disability. Revenues are derived from rates or fees charged to the departments for specific services rendered. All miscellaneous funds are reported with governmental activities in the government-wide financial statements, with the exception of the public utilities inventory fund, which is reported with business-type activities.

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF FUND NET POSITION
June 30, 2018
(Dollars in Thousands)

	Fleet Operations	Central Stores	Publishing Services	Miscellaneous Internal Service	Total
ASSETS					
Current Assets:					
Cash and Investments	$ 110,052	$ 389	$ 1,393	$ 33,501	$ 145,335
Receivables:					
Accounts - Net of Allowance for Uncollectibles	2,915	—	2	37	2,954
Contributions	—	—	—	913	913
Accrued Interest	45	3	5	152	205
Grants	—	—	—	277	277
Inventories	—	1,351	—	418	1,769
Total Current Assets	113,012	1,743	1,400	35,298	151,453
Non-Current Assets:					
Capital Assets - Non-Depreciable	3,073	—	—	776	3,849
Capital Assets - Depreciable	140,868	128	103	1,520	142,619
Total Non-Current Assets	143,941	128	103	2,296	146,468
TOTAL ASSETS	256,953	1,871	1,503	37,594	297,921
DEFERRED OUTFLOWS OF RESOURCES					
Deferred Outflows Related to Other Postemployment Benefits	565	61	31	280	937
Deferred Outflows Related to Pensions	10,572	911	395	5,241	17,119
TOTAL DEFERRED OUTFLOWS OF RESOURCES	11,137	972	426	5,521	18,056
LIABILITIES					
Current Liabilities:					
Accounts Payable	6,981	612	238	1,241	9,072
Accrued Wages and Benefits	697	46	25	1,068	1,836
Other Accrued Liabilities	—	—	—	130	130
Interest Accrued on Long-Term Debt	233	—	—	—	233
Long-Term Liabilities Due Within One Year	10,803	57	36	3,900	14,796
Total Current Liabilities	18,714	715	299	6,339	26,067
Non-Current Liabilities:					
Compensated Absences	464	24	26	2,813	3,327
Liability Claims	4,536	226	68	2,479	7,309
Capital Lease Obligations	26,415	—	—	—	26,415
Net Other Postemployment Benefits Liability	13,295	1,182	926	4,973	20,376
Pension Liabilities	42,154	3,532	1,776	18,955	66,417
Total Non-Current Liabilities	86,864	4,964	2,796	29,220	123,844
TOTAL LIABILITIES	105,578	5,679	3,095	35,559	149,911
DEFERRED INFLOWS OF RESOURCES					
Deferred Inflows Related to Other Postemployment Benefits	11	1	1	5	18
Deferred Inflows Related to Pensions	1,349	114	54	673	2,190
TOTAL DEFERRED INFLOWS OF RESOURCES	1,360	115	55	678	2,208
NET POSITION (DEFICIT)					
Net Investment in Capital Assets	107,856	128	103	2,296	110,383
Unrestricted (Deficit)	53,296	(3,079)	(1,324)	4,582	53,475
TOTAL NET POSITION (DEFICIT)	$ 161,152	$ (2,951)	$ (1,221)	$ 6,878	$ 163,858

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Fleet Operations	Central Stores	Publishing Services	Miscellaneous Internal Service	Total
OPERATING REVENUES					
Charges for Services	$ 79,261	$ 9,022	$ 3,695	$ 28,486	$ 120,464
Other	—	45	—	28	73
TOTAL OPERATING REVENUES	79,261	9,067	3,695	28,514	120,537
OPERATING EXPENSES					
Salaries and Employee Benefits	24,531	2,007	990	12,412	39,940
Materials and Supplies	13,803	7,059	293	117	21,272
Contractual Services	5,078	1,164	2,078	2,579	10,899
Information Technology	571	67	91	1,164	1,893
Energy and Utilities	12,189	107	101	25	12,422
Depreciation	20,732	18	11	42	20,803
Benefit and Claim Expenses	—	—	—	16,944	16,944
Other Expenses	5	—	—	25	30
TOTAL OPERATING EXPENSES	76,909	10,422	3,564	33,308	124,203
OPERATING INCOME (LOSS)	2,352	(1,355)	131	(4,794)	(3,666)
NONOPERATING REVENUES (EXPENSES)					
Earnings on Investments	62	10	8	336	416
Other Agency Grant Assistance	—	—	—	656	656
Gain (Loss) on Sale/Retirement of Capital Assets	872	—	—	(144)	728
Debt Service Interest Expense	(658)	—	—	—	(658)
Other	321	16	75	2	414
TOTAL NONOPERATING REVENUES (EXPENSES), NET	597	26	83	850	1,556
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	2,949	(1,329)	214	(3,944)	(2,110)
Capital Contributions	1,300	—	—	—	1,300
Transfers from Other Funds	—	—	—	3,000	3,000
Transfers from Governmental Funds	207	14	5	22	248
Transfers to Governmental Funds	(2)	—	(4)	—	(6)
TOTAL CONTRIBUTIONS AND TRANSFERS	1,505	14	1	3,022	4,542
CHANGE IN NET POSITION	4,454	(1,315)	215	(922)	2,432
Net Position (Deficit) at Beginning of Year, as Restated	156,698	(1,636)	(1,436)	7,800	161,426
NET POSITION (DEFICIT) AT END OF YEAR	$ 161,152	$ (2,951)	$ (1,221)	$ 6,878	$ 163,858

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Fleet Operations	Central Stores	Publishing Services	Miscellaneous Internal Service	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers and Users	$ —	$ —	$ —	$ 25,157	$ 25,157
Receipts from Interfund Services Provided	78,614	9,083	3,769	3,268	94,734
Payments to Suppliers	(31,096)	(7,545)	(2,736)	(5,981)	(47,358)
Payments to Employees	(18,198)	(1,546)	(726)	(25,648)	(46,118)
Payments for Interfund Services Used	(609)	(643)	(55)	(455)	(1,762)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	28,711	(651)	252	(3,659)	24,653
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from Other Funds	—	—	—	3,000	3,000
Transfers from Governmental Funds	207	14	5	22	248
Transfers to Governmental Funds	(2)	—	(4)	—	(6)
Operating Grants Received	—	—	—	490	490
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	205	14	1	3,512	3,732
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from the Sale of Capital Assets	1,300	—	—	—	1,300
Acquisition of Capital Assets	(17,064)	(1)	(32)	(874)	(17,971)
Principal Payments on Capital Leases	(8,010)	—	—	—	(8,010)
Interest Paid on Long-Term Debt	(548)	—	—	—	(548)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(24,322)	(1)	(32)	(874)	(25,229)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest Received on Investments	52	11	6	284	353
NET CASH PROVIDED BY INVESTING ACTIVITIES	52	11	6	284	353
Net Increase (Decrease) in Cash and Cash Equivalents	4,646	(627)	227	(737)	3,509
Cash and Cash Equivalents at Beginning of Year	105,406	1,016	1,166	34,238	141,826
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 110,052	$ 389	$ 1,393	$ 33,501	$ 145,335

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Fleet Operations	Central Stores	Publishing Services	Miscellaneous Internal Service	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:					
Operating Income (Loss)	$ 2,352	$ (1,355)	$ 131	$ (4,794)	$ (3,666)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:					
Depreciation	20,732	18	11	42	20,803
Other Nonoperating Revenue	321	16	75	2	414
(Increase) Decrease in Assets:					
Accounts Receivable - Net	(968)	—	(1)	(10)	(979)
Contributions Receivable	—	—	—	(80)	(80)
Inventories	—	352	—	(418)	(66)
Increase (Decrease) in Liabilities and Net Deferred Outflows/Inflows of Resources:					
Accounts Payable	2,290	77	(85)	408	2,690
Accrued Wages and Benefits	67	7	1	29	104
Compensated Absences	(30)	9	(2)	371	348
Liability Claims	1,418	15	(24)	(256)	1,153
Net Other Postemployment Benefits Liability and Related Deferred Outflows/Inflows of Resources	6	(1)	1	(17)	(11)
Pension Liabilities and Related Deferred Outflows/Inflows of Resources	2,523	211	145	1,064	3,943
Total Adjustments	26,359	704	121	1,135	28,319
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 28,711	$ (651)	$ 252	$ (3,659)	$ 24,653
Noncash Investing, Capital, and Financing Activites:					
Capital Assets Acquired through Capital Leases	$ 14,413	$ —	$ —	$ —	$ 14,413
Acquisition of Capital Assets	42	—	—	—	42
Capital Asset Acquisitions Related to Accounts Payable	(29)	—	—	109	80
Carrying Value of Retired Capital Assets	(428)	—	—	(64)	(492)
Transfers of Capital Assets (To) From Governmental Activities	1,258	—	—	(51)	1,207
Transfers of Capital Assets To Other Funds	—	—	—	(29)	(29)

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FIDUCIARY FUNDS

Harbor Drive Pedestrian Bridge, Downtown San Diego, CA

FIDUCIARY FUNDS

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The resources of fiduciary funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

CITY OF SAN DIEGO

PENSION TRUST FUNDS

PRESERVATION OF BENEFITS PLAN

The Preservation of Benefits Plan is a qualified governmental excess benefit plan under IRC section 415(m), which was created by Congress to allow for the payment of promised pension benefits that exceed the IRC section 415(b) limits and therefore can't be paid from the City's Pension and Employee Savings Trust Fund. This fund is maintained by the SDCERS Board of Administration to reflect all amounts the City contributes for payment of pension benefits that exceed IRC section 415(b) limits.

POSTEMPLOYMENT HEALTHCARE BENEFIT PLAN

Retiree Health Insurance Trust fund is a separate trust fund used solely for providing retiree health benefits. It is maintained by the Retirement Board of Administration to reflect all amounts the City and retirees contribute to pay retiree health benefits.

SUPPLEMENTAL PENSION SAVINGS PLAN

This fund is used to account for a defined contribution plan, where benefits depend solely on amounts contributed to the plan by both the City and employees, plus investment earnings. Disbursements are made from the fund for terminations, retirements, allowable yearly withdrawals, and loans.

401(a) PLAN

This fund is used to account for a defined contribution plan, where benefits depend solely on amounts contributed to the plan by the City, employees and investment earnings. Disbursements are made from the fund for terminations, retirements, allowable yearly withdrawals, and loans.

401(k) PLAN

This fund is used to account for a defined contribution plan, where benefits depend solely on amounts contributed to the plan by City employees, plus investment earnings. Disbursements are made from the fund for terminations, retirements, allowable yearly withdrawals, and loans.

AGENCY FUNDS

These funds were established to account for assets held by the City as an agent for individuals, private organizations, other governments and/or funds, including federal and state income taxes withheld from employees, parking citation revenues, employee benefit plans and special assessments.

FIDUCIARY COMPONENT UNIT

CITY EMPLOYEES' RETIREMENT SYSTEM

SDCERS provides retirement, disability, and death benefits. SDCERS is a defined benefit plan, whereby funds are accumulated from City and employee contributions, plus earnings from fund investments. Currently SDCERS also administers the Port of San Diego and the San Diego County Regional Airport Authority defined benefit plans. It also performs certain administrative functions on other post-employment benefits on behalf of the City.

FIDUCIARY FUNDS
PENSION TRUST FUNDS
COMBINING STATEMENT OF FIDUCIARY NET POSITION
June 30, 2018
(Dollars in Thousands)

	City Employees' Retirement System		
	City of San Diego	Unified Port District	Airport Authority
ASSETS			
Cash and Investments	$ 1,268	$ 121	$ 184
Cash and Investments with Custodian/Fiscal Agent	214,296	31,051	43,227
Investments at Fair Value:			
Domestic Fixed Income Securities	1,898,282	107,934	37,488
International Fixed Income Securities	521,541	30,013	10,574
Domestic Equity Securities (Stocks)	1,671,653	94,731	32,590
International Equity Securities (Stocks)	1,210,041	68,673	23,515
Global Equity Securities	367,001	20,950	6,982
Real Estate	777,915	44,403	15,558
Equity Mutual Funds	—	—	—
Fixed Income Mutual Funds	—	—	—
Private Equity and Infrastructure	1,060,111	61,382	22,082
Receivables:			
Contributions	2,887	310	68
Accrued Interest	7,865	434	140
Loans	—	—	—
Securities Sold	158,116	8,970	3,091
Prepaid Expenses	175	10	2
Securities Lending Collateral	158,009	9,438	3,874
Capital Assets - Depreciable	4,603	269	86
TOTAL ASSETS	8,053,763	478,689	199,461
LIABILITIES			
Accounts Payable	4,206	229	79
Accrued Wages and Benefits	614	39	19
Supplemental Benefits Payable	11,449	285	54
Securities Lending Obligations	157,998	9,436	3,872
Securities Purchased	434,607	24,888	8,934
TOTAL LIABILITIES	608,874	34,877	12,958
NET POSITION			
Restricted for Pension Benefits	$ 7,444,889	$ 443,812	$ 186,503

Preservation of Benefits Plan	Postemployment Healthcare Benefit Plan	Supplemental Pension Savings Plan	401(a) Plan	401(k) Plan	Total
—	—	$ 539	$ 1	$ 1	$ 2,114
14	—	—	—	—	288,588
—	—	—	—	—	2,043,704
—	—	—	—	—	562,128
—	—	—	—	—	1,798,974
—	—	—	—	—	1,302,229
—	—	—	—	—	394,933
—	—	—	—	—	837,876
—	—	517,718	6,007	276,244	799,969
—	—	271,269	181	122,929	394,379
—	—	—	—	—	1,143,575
—	—	—	—	—	3,265
—	—	—	—	—	8,439
—	—	22,232	—	11,769	34,001
—	—	—	—	—	170,177
—	—	—	—	—	187
—	—	—	—	—	171,321
—	—	—	—	—	4,958
14	—	811,758	6,189	410,943	9,960,817
—	—	—	—	—	4,514
—	—	—	—	—	672
—	—	—	—	—	11,788
—	—	—	—	—	171,306
—	—	—	—	—	468,429
—	—	—	—	—	656,709
$ 14	$ —	$ 811,758	$ 6,189	$ 410,943	$ 9,304,108

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FIDUCIARY FUNDS
PENSION TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	City Employees' Retirement System		
	City of San Diego	Unified Port District	Airport Authority
ADDITIONS			
Employer Contributions	$ 326,372	$ 17,718	$ 7,247
Plan Member Contributions:			
Employee Contributions	55,387	3,374	3,092
DROP Contributions	5,099	279	143
Retiree Contributions	—	—	—
Earnings on Investments:			
Investment Income	77,909	4,632	1,846
Investment Expense	(35,317)	(2,099)	(837)
Net Appreciation in Fair Value of Investments	551,340	32,746	13,005
Net Investment Income	593,932	35,279	14,014
Securities Lending:			
Gross Earnings	3,183	189	76
Borrower Rebates and Bank Charges	(2,270)	(135)	(54)
Net Securities Lending Income	913	54	22
Other Income	—	—	—
TOTAL ADDITIONS	981,703	56,704	24,518
DEDUCTIONS			
DROP Interest Expense	22,462	496	50
Benefit and Claim Payments	492,616	24,863	4,413
Administration	10,570	659	350
TOTAL DEDUCTIONS	525,648	26,018	4,813
CHANGE IN NET POSITION	456,055	30,686	19,705
Net Position at Beginning of Year	6,988,834	413,126	166,798
NET POSITION AT END OF YEAR	$ 7,444,889	$ 443,812	$ 186,503

Preservation of Benefits Plan	Postemployment Healthcare Benefit Plan	Supplemental Pension Savings Plan	401(a) Plan	401(k) Plan	Total
$ 1,434	$ 30,380	$ 32,830	$ 374	$ —	$ 416,355
—	577	32,443	554	30,433	125,860
—	—	—	—	—	5,521
—	8,040	—	—	—	8,040
—	—	53,054	420	28,368	166,229
—	—	—	—	—	(38,253)
—	—	—	—	—	597,091
—	—	53,054	420	28,368	725,067
—	—	—	—	—	3,448
—	—	—	—	—	(2,459)
—	—	—	—	—	989
—	—	655	—	344	999
1,434	38,997	118,982	1,348	59,145	1,282,831
—	—	—	—	—	23,008
1,430	38,413	55,160	172	23,690	640,757
3	584	—	—	—	12,166
1,433	38,997	55,160	172	23,690	675,931
1	—	63,822	1,176	35,455	606,900
13	—	747,936	5,013	375,488	8,697,208
$ 14	$ —	$ 811,758	$ 6,189	$ 410,943	$ 9,304,108

FIDUCIARY FUNDS
AGENCY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET POSITION
June 30, 2018
(Dollars in Thousands)

	Employee Benefits	Other Miscellaneous Agency	Total
ASSETS			
Cash and Investments	$ 11,011	$ 20,968	$ 31,979
Receivables:			
Accounts - Net of Allowance for Uncollectibles	96	666	762
Special Assessments	—	133	133
Accrued Interest	—	22	22
Restricted Cash and Investments	—	34,292	34,292
TOTAL ASSETS	$ 11,107	$ 56,081	$ 67,188
LIABILITIES			
Accounts Payable	$ —	$ 10,764	$ 10,764
Deposits/Advances from Others	—	26	26
Sundry Agency Liabilities	11,107	24,006	35,113
Due to Bondholders	—	21,285	21,285
TOTAL LIABILITIES	$ 11,107	$ 56,081	$ 67,188

FIDUCIARY FUNDS
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Employee Benefits				
ASSETS				
Cash and Investments	$ 8,900	$ 172,307	$ 170,196	$ 11,011
Receivables:				
Accounts - Net of Allowance for Uncollectibles	110	3,431	3,445	96
TOTAL ASSETS	$ 9,010	$ 175,738	$ 173,641	$ 11,107
LIABILITIES				
Accounts Payable	$ 39	$ 89,743	$ 89,782	—
Sundry Agency Liabilities	8,971	174,932	172,796	11,107
TOTAL LIABILITIES	$ 9,010	$ 264,675	$ 262,578	$ 11,107
Other Miscellaneous Agency				
ASSETS				
Cash and Investments	$ 14,960	$ 244,334	$ 238,326	$ 20,968
Receivables:				
Accounts - Net of Allowance for Uncollectibles	1,079	10,998	11,411	666
Special Assessments	160	132	159	133
Accrued Interest	15	22	15	22
Restricted Cash and Investments	29,661	40,149	35,518	34,292
TOTAL ASSETS	$ 45,875	$ 295,635	$ 285,429	$ 56,081
LIABILITIES				
Accounts Payable	$ 3,975	$ 166,790	$ 160,001	$ 10,764
Deposits/Advances from Others	151	—	125	26
Sundry Agency Liabilities	19,848	69,580	65,422	24,006
Due to Bondholders	21,901	46,248	46,864	21,285
TOTAL LIABILITIES	$ 45,875	$ 282,618	$ 272,412	$ 56,081
Total Agency Funds				
ASSETS				
Cash and Investments	$ 23,860	$ 416,641	$ 408,522	$ 31,979
Receivables:				
Accounts - Net of Allowance for Uncollectibles	1,189	14,429	14,856	762
Special Assessments	160	132	159	133
Accrued Interest	15	22	15	22
Restricted Cash and Investments	29,661	40,149	35,518	34,292
TOTAL ASSETS	$ 54,885	$ 471,373	$ 459,070	$ 67,188
LIABILITIES				
Accounts Payable	$ 4,014	$ 256,533	$ 249,783	$ 10,764
Deposits/Advances from Others	151	—	125	26
Sundry Agency Liabilities	28,819	244,512	238,218	35,113
Due to Bondholders	21,901	46,248	46,864	21,285
TOTAL LIABILITIES	$ 54,885	$ 547,293	$ 534,990	$ 67,188

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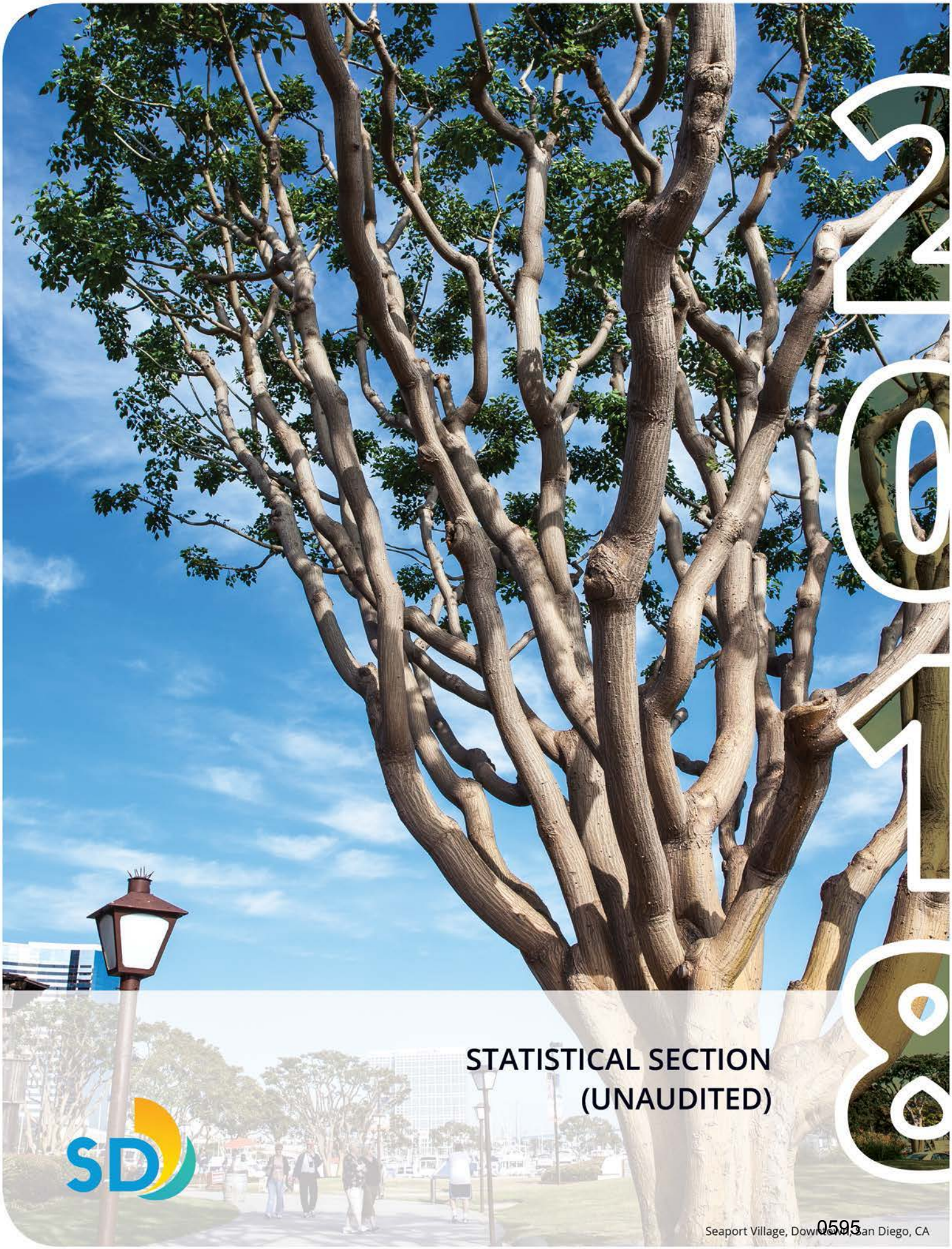

STATISTICAL SECTION (UNAUDITED)

Seaport Village, Downtown, San Diego, CA

STATISTICAL SECTION

The Statistical Section presents information as required by GASB Statement No. 44. In addition to utilizing the basic financial statements, notes to the basic financial statements, and required supplementary information, the statistical data presented in this section helps users assess the City's economic condition. Ten-year trend information has been provided when available. The statistical tables are footnoted to indicate sources and when accounting data or other information is unavailable.

CONTENTS

FINANCIAL TRENDS

Tables 1 through 4 contain information to help the reader understand how the City's financial performance and well-being have changed over time.

REVENUE CAPACITY

Tables 5 through 9 contain information to help the reader assess the City's ability to generate its most significant local revenue source, property tax.

DEBT CAPACITY

Tables 10 through 15 present information to help the reader assess the affordability of the City's current levels of certain outstanding debt categories.

DEMOGRAPHIC AND ECONOMIC INFORMATION

Tables 16 and 17 offer demographic and economic indicators to help the reader understand the environment in which the City's financial activities take place and to provide comparisons over time with other governments.

OPERATING INFORMATION

Tables 18 through 20 contain information about the City's resources and operations to help the reader understand how the City's financial report relates to the services provided and activities performed by the City.

*Additional financial information (audited and statistical) on the Sewer and Water Utilities can be obtained in the Annual Report Disclosure filings submitted to the Municipal Securities Rulemaking Board, http://emma.msrb.org.

CITY OF SAN DIEGO
NET POSITION BY CATEGORY (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)
(Accrual Basis of Accounting)

	Fiscal Year			
	2009	2010	2011	2012
Governmental Activities				
Net Investment in Capital Assets	$ 3,530,937	$ 3,780,474	$ 3,812,560	$ 3,835,923
Restricted for:				
Capital Projects	293,284	260,754	654,126	521,015
Low-Moderate Income Housing	135,581	162,514	84,260	50,988
Nonexpendable Permanent Endowments	13,280	17,514	15,670	18,780
Grants	—	—	—	232,249
Other	122,460	131,600	195,171	157,462
Unrestricted	162,661	2,189	(392,384)	(278,413)
Total Governmental Activities Net Position	4,258,203	4,355,045	4,369,403	4,538,004
Business-type Activities				
Net Investment in Capital Assets	2,970,351	3,035,924	3,094,788	3,131,831
Restricted for:				
Debt Service	4,372	8,443	11,129	13,346
Other	38,113	43,747	45,217	24,462
Unrestricted	587,443	643,275	685,666	826,386
Total Business-type Activities Net Position	3,600,279	3,731,389	3,836,800	3,996,025
Primary Government				
Net Investment in Capital Assets	6,501,288	6,816,398	6,907,348	6,967,754
Restricted for:				
Capital Projects	293,284	260,754	654,126	521,015
Debt Service	4,372	8,443	11,129	13,346
Low-Moderate Income Housing	135,581	162,514	84,260	50,988
Nonexpendable Permanent Endowments	13,280	17,514	15,670	18,780
Grants	—	—	—	232,249
Other	160,573	175,347	240,388	181,924
Unrestricted	750,104	645,464	293,282	547,973
Total Primary Government Net Position	$ 7,858,482	$ 8,086,434	$ 8,206,203	$ 8,534,029

Source: Comprehensive Annual Financial Reports

Table 1

Fiscal Year					
2013	**2014**	**2015**	**2016**	**2017**	**2018**
$ 3,963,306	$ 3,988,284	$ 3,988,396	$ 4,129,002	$ 4,220,622	$ 4,308,123
456,874	459,115	575,798	598,215	723,855	462,389
251,655	277,139	286,129	319,022	335,801	338,828
19,689	24,307	21,300	19,900	20,264	17,836
75,462	68,206	67,230	219,216	204,527	179,469
202,705	277,586	358,647	450,885	441,102	492,426
(341,390)	(274,916)	(1,493,831)	(1,418,869)	(1,577,390)	(1,716,136)
4,628,301	4,819,721	3,803,669	4,317,371	4,368,781	4,082,935
3,378,535	3,526,979	3,902,396	4,042,983	4,246,534	4,383,725
7,893	1,880	1,531	2,790	505	683
24,822	25,404	26,245	7,010	7,285	6,525
701,760	637,889	380,283	364,762	293,340	239,462
4,113,010	4,192,152	4,310,455	4,417,545	4,547,664	4,630,395
7,341,841	7,515,263	7,890,792	8,171,985	8,467,156	8,691,848
456,874	459,115	575,798	598,215	723,855	462,389
7,893	1,880	1,531	2,790	505	683
251,655	277,139	286,129	319,022	335,801	338,828
19,689	24,307	21,300	19,900	20,264	17,836
75,462	68,206	67,230	219,216	204,527	179,469
227,527	302,990	384,892	457,895	448,387	498,951
360,370	362,973	(1,113,548)	(1,054,107)	(1,284,050)	(1,476,674)
$ 8,741,311	$ 9,011,873	$ 8,114,124	$ 8,734,916	$ 8,916,445	$ 8,713,330

CITY OF SAN DIEGO
CHANGES IN NET POSITION (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)
(Accrual Basis of Accounting)

	Fiscal Year			
	2009	2010	2011	2012
Expenses				
Governmental Activities				
General Government and Support	$ 303,581	$ 395.344	$ 361.098	$ 294.198
Public Safety - Police	418,549	402,222	427,724	409,374
Public Safety - Fire and Life Safety and Homeland Security	220,787	214,975	223,174	233,635
Parks, Recreation, Culture and Leisure	258,038	266,343	248,668	270,199
Transportation	239,305	190,054	191,402	224,187
Sanitation and Health	77,447	78,171	74,639	73,299
Neighborhood Services	116,735	137,971	85,588	219,499
Debt Service:				
Interest	84,070	72,672	77,443	58,838
Cost of Issuance	—	—	—	—
Total Governmental Activities Expenses	1,718,512	1,757,752	1,689,736	1,783,229
Business-type Activities				
Sewer Utility	314,125	338,688	315,591	311,367
Water Utility	329,748	365,683	362,830	382,314
Airports	5,140	5,671	4,297	3,614
City Store	321	—	—	—
Development Services	47,260	36,640	43,552	43,842
Environmental Services	35,718	33,955	34,904	36,357
Golf Course	11,864	14,618	15,503	15,217
Recycling	20,067	19,265	19,611	18,105
San Diego Convention Center Corporation	—	—	—	—
Total Business-type Activities Expenses	764,243	814,520	796,288	810,816
Total Primary Government Expenses	2,482,755	2,572,272	2,486,024	2,594,045
Program Revenues				
Governmental Activities				
Charges for Services:				
General Government and Support	152,630	179,461	185,696	193,766
Public Safety - Police	42,178	39,636	44,879	38,367
Public Safety - Fire and Life Safety and Homeland Security	20,449	19,916	30,655	31,724
Parks, Recreation, Culture and Leisure	80,795	61,495	65,033	80,673
Transportation	18,360	31,485	27,304	56,742
Sanitation and Health	9,306	11,788	11,784	14,452
Neighborhood Services	21,814	25,959	27,013	22,699
Operating Grants and Contributions	93,244	71,829	81,159	62,181
Capital Grants and Contributions	110,802	60,139	51,674	46,770
Total Governmental Activities Program Revenues	549,578	501,708	525,197	547,374

Table 2

Fiscal Year					
2013	2014	2015	2016	2017	2018
$ 313,800	$ 286,798	$ 271,094	$ 303,802	$ 344,484	$ 364,533
429,849	441,803	380,344	412,571	501,314	542,128
241,029	253,741	221,446	233,688	290,178	321,016
270,540	267,523	263,127	311,372	355,714	383,122
202,376	192,928	198,242	224,620	239,099	264,278
67,623	89,448	92,833	99,079	103,039	101,440
89,354	70,191	80,299	65,994	82,384	91,686
37,942	35,226	33,790	41,537	36,943	36,515
—	518	—	—	—	—
1,652,513	1,638,176	1,541,175	1,692,663	1,953,155	2,104,718
322,431	326,437	316,465	296,422	339,189	351,145
420,809	443,453	466,552	437,304	477,037	532,056
4,759	4,663	3,740	4,824	6,306	7,415
—	—	—	—	—	—
46,024	50,825	50,244	54,002	69,949	78,287
32,205	33,724	30,939	54,385	34,253	41,397
15,689	16,423	15,827	16,182	19,925	21,072
18,895	20,475	17,200	18,036	19,444	25,002
—	—	—	—	36,760	37,986
860,812	896,000	900,967	881,155	1,002,863	1,094,360
2,513,325	2,534,176	2,442,142	2,573,818	2,956,018	3,199,078
191,256	198,856	249,241	213,490	176,696	176,366
44,723	42,976	40,304	46,238	45,126	40,738
22,539	34,984	33,547	36,645	32,491	43,814
72,297	51,721	53,093	74,531	133,451	114,893
28,759	30,262	34,459	44,555	47,655	51,422
13,790	15,342	14,269	14,730	16,629	15,625
35,792	36,339	49,825	32,982	37,105	40,123
82,760	60,591	49,049	65,173	46,476	134,682
152,193	120,538	106,237	140,408	75,694	26,218
644,109	591,609	630,024	668,752	611,323	643,881

(Continued on Next Page)

CITY OF SAN DIEGO
CHANGES IN NET POSITION (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)
(Accrual Basis of Accounting)

	Fiscal Year			
	2009	2010	2011	2012
Program Revenues (Continued)				
Business-type Activities				
Charges for Services:				
Sewer Utility	$ 322,571	$ 382,125	$ 357,731	$ 370,299
Water Utility	342,719	376,461	371,515	408,119
Airports	4,929	4,849	4,749	4,188
City Store	242	—	—	—
Development Services	37,310	37,338	45,743	44,557
Environmental Services	31,726	26,342	28,246	25,123
Golf Course	16,201	15,671	15,715	17,428
Recycling	16,027	16,946	18,592	17,323
San Diego Convention Center Corporation	—	—	—	—
Operating Grants and Contributions	1,739	3,289	8,355	2,939
Capital Grants and Contributions	60,863	45,738	30,692	75,194
Total Business-type Activities Program Revenues	834,327	908,759	881,338	965,170
Total Primary Government Program Revenues	1,383,905	1,410,467	1,406,535	1,512,544
Net (Expense)/Revenue:				
Governmental Activities	(1,168,934)	(1,256,044)	(1,164,539)	(1,235,855)
Business-type Activities	70,084	94,239	85,050	154,354
Total Primary Government Net Expense	(1,098,850)	(1,161,805)	(1,079,489)	(1,081,501)
General Revenues and Other Changes in Net Position				
Governmental Activities				
Property Taxes	607,857	579,410	560,577	508,938
Transient Occupancy Taxes	140,657	123,332	140,752	148,184
Sales Taxes - Shared State Revenue	229,651	244,406	246,452	253,624
Franchises	—	—	—	—
Other Local Taxes	161,485	183,694	158,797	173,954
Developer Contributions and Fees	16,148	21,022	14,131	55,635
Grants and Contributions not Restricted to Specific Programs	8,488	18,065	10,320	115
Investment Income	75,245	30,472	25,488	15,708
Gain on Sale of Capital Assets	1,922	1,854	133	—
Miscellaneous	33,528	20,458	16,207	36,086
Transfers	(1,225)	(1,218)	6,040	16,739
Total Governmental Activities General Revenues and Transfers	1,273,756	1,221,495	1,178,897	1,208,983
Business-type Activities				
Investment Income	31,004	22,332	13,717	11,519
Miscellaneous	8,257	13,321	12,684	8,225
Transfers	1,225	1,218	(6,040)	(16,739)
Total Business-type Activities General Revenues and Transfers	40,486	36,871	20,361	3,005
Total Primary Government General Revenues and Transfers	1,314,242	1,258,366	1,199,258	1,211,988
Extraordinary Gain (Loss)				
Governmental Activities	—	—	—	195,473
Business-type Activities	—	—	—	1,866
Change in Net Position:				
Governmental Activities	104,822	(34,549)	14,358	168,601
Business-type Activities	110,570	131,110	105,411	159,225
Total Primary Government Change in Net Position	$ 215,392	$ 96,561	$ 119,769	$ 327,826

Source: Comprehensive Annual Financial Reports

Table 2

Fiscal Year					
2013	**2014**	**2015**	**2016**	**2017**	**2018**
$ 361,637	$ 364,548	$ 364,467	$ 346,950	$ 353,488	$ 360,710
414,508	447,565	455,222	413,008	501,404	569,524
4,906	4,371	4,618	4,691	5,307	4,888
—	—	—	—	—	—
50,006	52,402	56,395	59,808	64,699	70,703
24,607	26,043	30,477	33,048	32,194	34,960
18,367	19,764	20,116	17,987	18,087	23,502
18,056	19,046	20,305	23,203	23,186	27,957
—	—	—	—	36,505	34,256
1,761	1,531	1,044	2,629	10,088	9,958
91,878	70,739	386,952	59,226	56,837	70,109
985,726	1,006,009	1,339,596	960,550	1,101,795	1,206,567
1,629,835	1,597,618	1,969,620	1,629,302	1,713,118	1,850,448
(1,008,404)	(1,046,567)	(911,151)	(1,023,911)	(1,341,832)	(1,460,837)
124,914	110,009	438,629	79,395	98,932	112,207
(883,490)	(936,558)	(472,522)	(944,516)	(1,242,900)	(1,348,630)
421,894	470,905	460,948	489,548	520,186	548,509
158,105	173,376	182,466	200,612	222,228	231,863
269,504	282,345	296,837	319,030	310,935	323,113
—	—	—	—	141,942	96,313
166,548	186,747	208,970	204,387	36,310	52,603
66,312	47,765	86,440	104,516	99,075	82,883
705	674	653	1,045	700	833
9,220	13,627	8,786	16,075	7,846	13,337
—	—	—	—	28,005	809
14,471	32,482	47,071	37,751	36,881	15,959
20,012	15,269	(150)	(733)	(3,207)	(2,814)
1,126,771	1,223,190	1,292,021	1,372,231	1,400,901	1,363,408
2,429	8,489	8,012	13,742	3,330	8,435
11,520	12,096	21,285	13,220	7,076	13,758
(20,012)	(15,269)	150	733	3,207	2,814
(6,063)	5,316	29,447	27,695	13,613	25,007
1,120,708	1,228,506	1,321,468	1,399,926	1,414,514	1,388,415
(28,070)	(14,828)	—	165,382	—	—
(1,866)	—	—	—	—	—
90,297	161,795	380,870	513,702	59,069	(97,429)
116,985	115,325	468,076	107,090	112,545	137,214
$ 207,282	$ 277,120	$ 848,946	$ 620,792	$ 171,614	$ 39,785

CITY OF SAN DIEGO
FUND BALANCES OF GOVERNMENTAL FUNDS (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)
(Modified Accrual Basis of Accounting)

	Pre-GASB 54 Fiscal Year	
	2009	2010
General Fund:		
Reserved	$ 33,895	$ 7,996
Unreserved	80,497	107,027
Total General Fund	$ 114,392	$ 115,023
Nonmajor Governmental Funds:		
Reserved	$ 706,971	$ 776,324
Unreserved, reported in:		
Special Revenue Funds	221,089	219,394
Debt Service Funds	265,236	159,737
Capital Projects Funds	430,479	368,860
Permanent Funds	2,625	2
Total Nonmajor Governmental Funds	$ 1,626,400	$ 1,524,317

[1] Starting in fiscal year 2011, data is reported in accordance with GASB Statement No. 54.

Source: Comprehensive Annual Financial Reports

Table 3

	Post-GASB 54 [1] Fiscal Year							
	2011	2012	2013	2014	2015	2016	2017	2018
General Fund:								
Nonspendable	$ —	$ 22,140	$ —	$ 1,248	$ 849	$ 2,502	$ 783	$ 863
Spendable:								
Restricted	145,880	102,104	60,507	104,885	140,358	146,228	116,253	132,307
Committed	1,183	44,831	40,953	147,053	130,891	109,474	116,497	100,483
Assigned	38,153	—	8,717	5,575	6,162	11,189	28,869	24,717
Unassigned	60,532	109,475	112,321	91,353	99,555	106,508	111,057	95,434
Total General Fund	$ 245,748	$ 278,550	$ 222,498	$ 350,114	$ 377,815	$ 375,901	$ 373,459	$ 353,804
Nonmajor Governmental Funds:								
Nonspendable	$ 21,093	$ 19,502	$ 115,806	$ 24,326	$ 21,427	$ 19,917	$ 20,299	$ 18,042
Spendable:								
Restricted	1,378,184	876,460	866,750	1,011,875	1,288,739	1,573,516	1,617,147	1,582,579
Committed	92,783	114,722	87,655	140,268	108,239	106,851	114,692	97,911
Unassigned	(29,569)	(43,841)	(22,578)	(15,156)	(11,287)	(27,289)	(33,843)	(43,514)
Total Nonmajor Governmental Funds	$ 1,462,491	$ 966,843	$ 1,047,633	$ 1,161,313	$ 1,407,118	$ 1,672,995	$ 1,718,295	$ 1,655,018

CITY OF SAN DIEGO
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)
(Modified Accrual Basis of Accounting)

	Fiscal Year		
	2009	2010	2011
Revenues			
Property Taxes	$ 603,574	$ 584,342	$ 569,009
Special Assessments	63,500	45,606	42,823
Sales Taxes - Shared State Revenue	233,140	192,665	232,077
Transient Occupancy Taxes	140,657	123,879	139,545
Franchises	—	—	—
Other Local Taxes	171,192	183,696	158,797
Licenses and Permits	39,349	33,088	42,668
Fines, Forfeitures and Penalties	34,406	31,836	33,356
Revenue from Use of Money and Property	107,784	91,227	86,720
Revenue from Federal Agencies	70,386	54,056	86,113
Revenue from Other Agencies	52,456	56,136	54,628
Revenue from Private Sources	21,593	21,689	29,126
Charges for Current Services	203,432	191,769	204,782
Other Revenue	25,711	23,187	32,807
Total Revenues	1,767,180	1,633,176	1,712,451
Expenditures			
Current:			
General Government and Support	344,930	391,680	339,782
Public Safety - Police	406,657	399,914	402,328
Public Safety - Fire and Life Safety and Homeland Security	225,696	210,730	210,539
Parks, Recreation, Culture and Leisure	211,759	228,357	205,219
Public Transportation	162,969	117,545	115,168
Sanitation and Health	78,260	78,351	70,274
Neighborhood Services	73,785	75,772	88,826
Capital Outlay	138,634	134,426	142,136
Debt Service:			
Principal Retirement	57,209	65,928	114,774
Cost of Issuance	1,001	1,881	1,552
Interest	78,659	74,825	73,093
Payment to Refunded Bond Escrow Agent	—	4,172	—
Total Expenditures	1,779,559	1,783,581	1,763,691
Excess (Deficiency) of Revenues Over Expenditures	(12,379)	(150,405)	(51,240)
Other Financing Sources (Uses)			
Transfers In	8,246	7,706	7,444
Transfers Out	(6,590)	(13,444)	(6,564)
Payment to Refunded Bond Escrow Agent	—	(161,194)	—
Contracts, Notes, and Loans Issued	12,583	48,710	478
Bonds Issued	115,236	183,396	104,857
Other Sources	32,392	15,341	13,924
Total Other Financing Sources (Uses)	161,867	80,515	120,139
Extraordinary Gain (Loss)	—	—	—
Net Change in Fund Balances	$ 149,488	$ (69,890)	$ 68,899
Debt Service as a Percentage of Noncapital Expenditures	8.3%	8.5%	11.6%

Source: Comprehensive Annual Financial Reports

Table 4

Fiscal Year						
2012	2013	2014	2015	2016	2017	2018
$ 512,178	$ 422,617	$ 470,960	$ 460,515	$ 489,664	$ 519,386	$ 548,870
46,964	50,510	50,796	57,343	54,304	61,736	63,870
265,057	269,929	278,564	293,929	333,821	319,343	314,023
148,795	159,494	170,475	186,690	204,559	222,228	231,863
—	—	—	—	—	141,942	160,185
173,954	166,548	186,747	208,907	204,450	36,304	52,608
41,906	51,662	53,329	57,388	78,595	125,087	108,516
64,816	31,261	31,363	33,832	41,465	32,480	32,157
77,654	80,994	87,212	92,452	103,307	97,902	103,746
70,132	59,863	52,504	45,217	44,529	35,149	54,336
46,604	57,770	39,804	87,364	35,748	56,267	35,670
38,451	71,280	78,875	71,581	87,739	13,286	9,348
215,914	189,551	207,101	238,516	260,933	267,708	289,731
41,446	20,829	33,890	49,200	39,718	37,846	16,304
1,743,871	1,632,308	1,741,620	1,882,934	1,978,832	1,966,664	2,021,227
279,663	265,489	299,739	305,594	334,883	335,344	363,126
396,098	406,599	431,531	430,411	445,027	441,999	473,969
226,623	228,128	245,650	254,603	252,608	255,451	285,567
228,255	225,411	216,635	228,157	276,730	293,083	322,467
149,344	120,594	108,836	120,102	144,145	147,397	175,931
72,980	65,969	83,128	92,907	94,982	99,012	95,366
218,724	81,559	63,846	82,812	79,745	90,673	97,978
193,727	158,460	118,187	185,018	194,957	290,550	253,249
70,614	46,323	66,534	42,812	37,077	36,428	40,961
880	814	518	1,140	712	28	1,500
56,695	37,399	36,070	34,135	40,330	39,108	54,994
—	1,572	—	—	3,811	—	13,125
1,893,603	1,638,317	1,670,674	1,777,691	1,905,007	2,029,073	2,178,233
(149,732)	(6,009)	70,946	105,243	73,825	(62,409)	(157,006)
274,458	302,999	192,049	253,570	173,710	138,412	143,061
(286,274)	(294,922)	(173,249)	(253,139)	(174,166)	(140,795)	(146,077)
(152,936)	(18,973)	(16,025)	—	(122,186)	—	(183,745)
2,700	—	761	1,512	—	—	—
153,964	94,808	51,713	121,200	123,294	—	226,971
12,058	7,477	29,747	45,120	24,104	107,650	33,864
3,970	91,389	84,996	168,263	24,756	105,267	74,074
(317,084)	(60,642)	(21,067)	—	165,382	—	—
$ (462,846)	$ 24,738	$ 134,875	$ 273,506	$ 263,963	$ 42,858	$ (82,932)
7.5%	5.7%	6.6%	4.8%	4.5%	4.3%	5.0%

CITY OF SAN DIEGO **Table 5**
ASSESSED VALUE AND ESTIMATED VALUE OF TAXABLE PROPERTY (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)

	City				Successor Agency [1]				
Fiscal Year Ended June 30	Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	Total Direct Tax Rate
2009	$ 162,580,727	$ 7,880,341	$ (6,795,274)	$ 163,665,794	$ 17,769,284	$ 918,239	$ (1,139,942)	$ 17,547,581	0.172%
2010	161,637,831	8,164,394	(7,157,357)	162,644,868	17,353,633	912,524	(1,289,122)	16,977,035	0.172%
2011	158,803,280	7,873,095	(7,411,231)	159,265,144	17,676,415	953,539	(1,465,748)	17,164,206	0.172%
2012	160,568,111	7,614,792	(7,713,035)	160,469,868	17,354,546	967,108	(1,610,637)	16,711,017	0.172%
2013	159,731,138	7,784,851	(7,883,818)	159,632,171	17,571,696	977,717	(1,683,396)	16,866,017	0.172%
2014	166,492,182	8,229,813	(8,321,763)	166,400,232	18,265,071	984,082	(1,712,162)	17,536,991	0.172%
2015	176,702,157	8,671,311	(8,592,636)	176,780,832	19,634,360	1,015,145	(1,694,855)	18,954,650	0.172%
2016	187,297,981	8,906,099	(9,002,912)	187,201,168	21,169,427	1,032,849	(1,795,081)	20,407,195	0.172%
2017	197,932,308	8,861,982	(9,478,879)	197,315,411	22,939,735	1,078,149	(1,814,669)	22,203,215	0.172%
2018	210,056,793	9,316,411	(9,765,866)	209,607,338	24,856,106	1,127,636	(2,011,257)	23,972,485	0.172%

[1] Pursuant to ABX1 26, the former Redevelopment Agency (RDA) dissolved as of February 1, 2012, at which time the City, as Successor Agency, received the former RDA's assets and assumed the responsibility for winding down the former RDA's operations.

Sources: Avenu Insights and Analytics, LLC and San Diego County Assessor Data

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CITY OF SAN DIEGO
ASSESSED VALUE OF PROPERTY BY USE CODE / ASSESSED VALUE BY MAJOR COMPONENT (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)

	Fiscal Year			
Category	2009	2010	2011	2012
Residential	$ 124,443,699	$ 120,621,778	$ 119,784,031	$ 122,014,996
Commercial	22,625,089	24,076,649	22,994,996	22,615,974
Industrial	11,437,742	11,844,884	11,628,925	11,578,295
Institution	1,573,962	1,567,379	1,629,550	1,618,090
Recreation	1,378,998	1,446,525	1,287,482	1,341,813
Government	—	—	—	—
Agriculture	10,721	10,837	12,882	14,116
Rural	300,506	267,128	260,106	243,543
Vacant	3,023,483	2,942,888	2,947,884	2,892,284
Unknown	15,555,812	16,213,396	15,933,839	15,603,546
Gross Secured Value	180,350,012	178,991,464	176,479,695	177,922,657
Unsecured	8,798,579	9,076,918	8,826,634	8,581,900
Less Exemptions	(7,935,216)	(8,446,479)	(8,876,979)	(9,323,672)
Net Taxable Value	$ 181,213,375	$ 179,621,903	$ 176,429,350	$ 177,180,885

Use code categories are based on San Diego County Assessor's data.

Source: Avenu Insights and Analytics, LLC

Table 6

Fiscal Year					
2013	2014	2015	2016	2017	2018
$ 121,392,331	$ 126,493,049	$ 135,781,072	$ 144,566,532	$ 153,836,389	$ 163,783,938
23,337,037	24,553,545	25,423,193	26,788,688	42,781,822	45,175,379
11,564,607	11,753,860	12,258,818	12,786,249	13,716,011	14,580,784
1,626,508	1,688,359	1,733,140	1,738,339	4,177,303	4,455,194
1,346,278	1,383,655	1,344,234	1,384,431	1,657,970	3,219,104
—	—	—	—	1,198,602	1,659,558
14,853	15,155	16,607	17,989	472,200	1,308,936
239,073	199,226	205,324	239,901	202,834	530,505
2,622,931	2,588,138	2,611,582	3,023,596	2,826,026	198,630
15,159,216	16,082,265	16,962,545	17,921,683	2,886	871
177,302,834	184,757,252	196,336,515	208,467,408	220,872,043	234,912,899
8,762,568	9,213,896	9,686,457	9,938,948	9,940,131	10,444,047
(9,567,214)	(10,033,925)	(10,287,491)	(10,797,993)	(11,293,548)	(11,777,123)
$ 176,498,188	$ 183,937,223	$ 195,735,481	$ 207,608,363	$ 219,518,626	$ 233,579,823

CITY OF SAN DIEGO
DIRECT AND OVERLAPPING PROPERTY TAX RATES (UNAUDITED)
Last Ten Fiscal Years
($1 Per $100 of Assessed Value)

	Fiscal Year			
Basic City and County Direct Rates	2009	2010	2011	2012
County of San Diego	0.15731%	0.15731%	0.15731%	0.15731%
City of San Diego	0.17213%	0.17213%	0.17213%	0.17213%
San Diego Unified School District	0.44679%	0.44679%	0.44679%	0.44679%
San Diego Community College District	0.06463%	0.06463%	0.06463%	0.06463%
County School Service	0.00748%	0.00748%	0.00748%	0.00748%
County School Service - Capital Outlay	0.00189%	0.00189%	0.00189%	0.00189%
Childrens Institution Tuition	0.00160%	0.00160%	0.00160%	0.00160%
Regional Occupational Center	0.00477%	0.00477%	0.00477%	0.00477%
Carlsbad Project	0.00010%	0.00010%	0.00010%	0.00010%
Educational Revenue Augmentation Fund (ERAF)	0.14330%	0.14330%	0.14330%	0.14330%
Total Basic City and County Direct Rates [1]	1.00000%	1.00000%	1.00000%	1.00000%
Overlapping Rates				
City of San Diego	0.01038%	0.01043%	0.00986%	0.00870%
Education	0.07396%	0.09152%	0.09164%	0.10410%
Total Overlapping	0.08434%	0.10195%	0.10150%	0.11280%
Total Direct and Overlapping Tax Rates	1.08434%	1.10195%	1.10150%	1.11280%

[1] Property tax rates in California do not utilize millage rates. Proposition 13, enacted by the voters in 1978-79, held property tax to a maximum of 1% of the assessed value. Rates over 1% are allowable only for voter approved bond indebtedness.

Sources: Avenu Insights and Analytics, LLC and San Diego County Auditor/Controller Data

Table 7

Fiscal Year					
2013	**2014**	**2015**	**2016**	**2017**	**2018**
0.15731%	0.15731%	0.15731%	0.15731%	0.15731%	0.15731%
0.17213%	0.17213%	0.17213%	0.17213%	0.17213%	0.17213%
0.44679%	0.44679%	0.44679%	0.44679%	0.44679%	0.44679%
0.06463%	0.06463%	0.06463%	0.06463%	0.06463%	0.06463%
0.00748%	0.00748%	0.00748%	0.00748%	0.00748%	0.00748%
0.00189%	0.00189%	0.00189%	0.00189%	0.00189%	0.00189%
0.00160%	0.00160%	0.00160%	0.00160%	0.00160%	0.00160%
0.00477%	0.00477%	0.00477%	0.00477%	0.00477%	0.00477%
0.00010%	0.00010%	0.00010%	0.00010%	0.00010%	0.00010%
0.14330%	0.14330%	0.14330%	0.14330%	0.14330%	0.14330%
1.00000%	1.00000%	1.00000%	1.00000%	1.00000%	1.00000%
0.00850%	0.00850%	0.00850%	0.00850%	0.00850%	0.00850%
0.10303%	0.17427%	0.17051%	0.16609%	0.16582%	0.16117%
0.11153%	0.18277%	0.17901%	0.17459%	0.17432%	0.16967%
1.11153%	1.18277%	1.17901%	1.17459%	1.17432%	1.16967%

Table 8

CITY OF SAN DIEGO
PRINCIPAL PROPERTY TAX PAYERS (UNAUDITED)
Current Year and Nine Years Ago
(Dollars in Thousands)

Property Tax Payer	Taxable Assessed Value	Percent of Total City Taxable Assessed Value
For the Fiscal Year Ended June 30, 2018		
Irvine Company, LLC	$ 2,432,936	1.04%
Qualcomm, Inc.	1,992,117	0.85%
Kilroy Realty, LP	1,081,589	0.46%
Host Hotels & Resorts, LP	972,194	0.42%
Kaiser Foundation Health Plan	887,182	0.38%
One Park Boulevard, LLC	681,905	0.29%
Fashion Valley Mall, LLC	589,085	0.25%
BEX Portfolio, LLC	507,697	0.22%
ARE-SD Region, LLC	504,284	0.22%
Illumina Inc.	464,301	0.20%
For the Fiscal Year Ended June 30, 2009		
Irvine Company, LLC	1,857,690	1.03%
Qualcomm, Inc.	1,331,526	0.73%
Kilroy Realty, LP	1,267,152	0.70%
Manchester Resorts, LP	903,950	0.50%
Pfizer, Inc.	520,855	0.29%
Fashion Valley Mall, LLC	477,578	0.26%
San Diego Family Housing, LLC	447,698	0.25%
Trizec 701 B Street, LLC	444,676	0.25%
Seaworld Parks Entertainment	431,351	0.24%
Host Hotels & Resorts, LP	402,693	0.22%

Sources: Avenu Insights and Analytics, LLC and San Diego County Assessor Data

Table 9

CITY OF SAN DIEGO
PROPERTY TAX LEVIES AND COLLECTIONS (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year [1, 2]	Collected within the Fiscal Year of Levy		Delinquent Collections [3]	Total Collections to Date	
		Amount Collected [2]	Percent of Levy		Amount	Percent of Levy
2009	$ 303,593	$ 290,480	95.68%	$ 10,424	$ 300,904	99.11%
2010	297,217	286,303	96.33%	7,661	293,964	98.91%
2011	293,624	285,913	97.37%	4,783	290,696	99.00%
2012	296,007	289,530	97.81%	4,014	293,544	99.17%
2013	299,332	293,577	98.08%	2,805	296,382	99.01%
2014	315,060	308,606	97.95%	2,523	311,129	98.75%
2015	331,187	325,794	98.37%	2,637	328,431	99.17%
2016	330,483	327,903	99.22%	2,140	330,043	99.87%
2017	349,650	346,510	99.10%	2,249	348,759	99.75%
2018	370,127	367,047	99.17%	—	367,047	99.17%

[1] Property tax levies and collections for the General Fund and Zoological Exhibits Fund.

[2] Taxes levied and collected for the year include local assessment only.

[3] Delinquent Collections amounts do not include penalties and interest.

Source: County of San Diego

CITY OF SAN DIEGO
RATIOS OF OUTSTANDING DEBT BY TYPE (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)

	Governmental Activities				
Fiscal Year Ended June 30	Capital Lease Obligations	Qualified Energy Conservation Bonds/Lease Obligation	Notes Payable	Loans Payable	General Obligation Bonds
2009	$ 89,519	$ —	$ 4,786	$ 78,347	$ 6,315
2010	84,561	—	3,301	110,891	4,340
2011	68,018	13,142	—	52,963	2,240
2012	69,638	12,392	—	38,748	—
2013	65,369	11,637	—	27,268	—
2014	58,094	10,864	—	17,633	—
2015	92,539	10,071	—	9,568	—
2016	86,500	9,259	—	8,480	—
2017	165,626	8,429	—	7,341	—
2018	197,649	7,578	—	6,383	—

	Business-Type Activities				
Fiscal Year Ended June 30	Capital Lease Obligations	Contracts Payable	Notes Payable	Loans Payable	Commercial Paper Notes
2009	$ —	$ —	$ —	$ 90,326	$ —
2010	—	—	—	84,673	—
2011	—	—	—	91,025	—
2012	—	—	—	125,406	—
2013	—	—	—	145,330	—
2014	2,590	—	—	161,360	—
2015	2,250	—	—	158,241	—
2016	7,588	3,606	—	162,194	—
2017	6,091	2,888	13	191,658	—
2018	4,624	2,194	11	203,273	168,213

[1] Personal income is disclosed in Table 16.

[2] Debt per Capita is calculated using population data, which is disclosed in Table 16.

Source: Comprehensive Annual Financial Reports

Table 10

Pooled Financing Bonds	Lease/ Bonds Net Debt	Tax Bonds Gross Debt	Tobacco Settlement-Asset Backed Bonds	Total Government Activities
$ 33,352	$ 575,468	$ 554,607	$ 95,380	$ 1,437,774
32,690	545,082	551,029	92,350	1,424,244
31,938	529,536	637,247	89,600	1,424,684
—	492,532	—	86,195	699,505
—	546,884	—	81,635	732,793
—	572,008	—	77,785	736,384
—	670,977	—	73,705	856,860
—	641,832	—	69,440	815,511
—	615,280	—	64,570	861,246
—	583,508	—	89,195	884,313

Revenue Bonds Payable Net	Total Business-Type Activities	Total Primary Government	Percentage of Personal Income [1]	Debt Per Capita [2]
$ 2,207,986	$ 2,298,312	$ 3,736,086	8.72%	$ 2.80
2,127,382	2,212,055	3,636,299	8.36%	2.68
2,060,529	2,151,554	3,576,238	8.87%	2.73
1,989,104	2,114,510	2,814,015	6.58%	2.13
1,915,775	2,061,105	2,793,898	6.42%	2.11
1,851,771	2,015,721	2,752,105	6.00%	2.04
1,771,085	1,931,576	2,788,436	6.02%	2.04
1,843,259	2,016,647	2,832,158	5.94%	2.04
1,735,166	1,935,816	2,797,062	5.53%	1.99
1,630,758	2,009,073	2,893,386	5.33%	2.04

Table 11

CITY OF SAN DIEGO
RATIOS OF GENERAL BONDED DEBT OUTSTANDING (UNAUDITED)
Last Ten Fiscal Years

Fiscal Year Ended June 30	General Obligation Bonds (Thousands)	Assessed Valuation (Thousands)	Percentage of Assessed Value [1]	Population	Debt Per Capita [2]
2009	$ 6,315	$ 163,665,794	0.004%	1,333,617	$ 4.74
2010	4,340	162,644,868	0.003%	1,359,132	3.19
2011	2,240	159,265,144	0.001%	1,311,882	1.71
2012	—	160,469,868	—	1,321,315	—
2013	—	159,632,171	—	1,326,238	—
2014	—	166,400,232	—	1,345,895	—
2015	—	176,780,832	—	1,368,061	—
2016	—	187,201,168	—	1,391,676	—
2017	—	197,315,411	—	1,406,318	—
2018	—	209,607,338	—	1,419,845	—

Details regarding the City's outstanding debt can be found in the notes to the basic financial statements.

[1] Ratio is calculated using assessed property values.

[2] Ratio is calculated using population data.

Sources: Avenu Insights and Analytics, LLC, California Department of Finance, and Comprehensive Annual Financial Reports

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CITY OF SAN DIEGO
DIRECT AND OVERLAPPING DEBT (UNAUDITED)
June 30, 2018
(Dollars in Thousands)

	Total Debt June 30, 2018	% Applicable [1]	City's Share of Debt June 30, 2018
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:			
Metropolitan Water District	$ 60,600	8.574%	$ 5,196
Palomar Community College District	627,826	23.756%	149,146
San Diego Community College District	1,326,815	99.932%	1,325,913
Poway Unified School District School Facilities Improvement District No. 2002-1 & 2007-1	316,736	55.491, 56.185%	176,987
San Diego Unified School District	3,486,782	99.934%	3,484,481
San Dieguito Union High School District	336,955	33.328%	112,300
San Ysidro School District	124,119	82.740%	102,696
Other School, High School and Community College Districts	2,325,079	Various	236,893
Grossmont Healthcare District	261,328	8.026%	20,974
Palomar Pomerado Health System	436,359	28.031%	122,316
City of San Diego Special Assessment/Special Tax Bonds [2]	89,735	100%	89,735
Del Mar Unified School District Community Facilities District No. 99-1 & 95-1	23,340	100%	23,340
North City West School District Community Facilities District	50,418	100%	50,418
Poway Unified School District Community Facilities Districts	344,297	100%	344,297
San Dieguito Union High School District Community Facilities Districts	55,746	81.063-100%	50,862
Sweetwater Union High School District Community Facilities Districts	11,400	8.935-100%	8,504
Solana Beach School District Community Facilities Districts	30,980	100%	30,980
Other Special District 1915 Act Bonds	31,731	Various	21,317
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			$ 6,356,355
DIRECT AND OVERLAPPING DEBT:			
San Diego County General Fund Obligations	$ 273,220	47.393%	$ 129,487
San Diego County Pension Obligations	558,525	47.394%	264,702
San Diego Superintendent of Schools Certificates of Participation	10,785	47.394%	5,111
Palomar Community College District General Fund Obligations	555	21.228%	118
Poway Unified School District Certificates of Participation	61,719	64.758%	39,968
Sweetwater Union High School District Certificates of Participation	41,745	19.373%	8,087
Chula Vista School District General Fund Obligations	144,905	5.155%	7,470
San Ysidro School District Certificates of Participation	54,235	82.740%	44,874
Other School, High School and Community College District Certificates of Participation	138,960	Various	5,391
City of San Diego Obligations [3]	884,313	100%	884,313
TOTAL DIRECT AND OVERLAPPING DEBT			$ 1,389,521
TOTAL OVERLAPPING TAX INCREMENT DEBT	$ 428,920	1.108-100%	$ 392,736
TOTAL DIRECT DEBT			884,313
TOTAL OVERLAPPING DEBT			7,254,299
COMBINED TOTAL DEBT			8,138,612

Table 12

Ratios to 2017-18 Assessed Valuations ($235,048,440):	
Total Overlapping Tax and Assessment Debt	2.70%
Total Direct Debt ($884,313)	0.38%
Combined Total Debt	3.46%
Ratios to Successor Agency Incremental Valuation ($24,038,926)	
Total Overlapping Tax Increment Debt	1.63%

[1] The percentage of overlapping debt applicable to the City is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the City divided by the district's total taxable assessed value.

[2] Amounts reconcile to Note 19, Total Special Assessment / Special Tax Bonds.

[3] Amounts for Total Debt reconcile to Note 5, Total Lease Revenue Bonds, Total QECB Obligations, Total Loans Payable, Section 108 Loans Payable, EVFP Capital Lease Obligations, Tobacco Settlement Asset Backed Bonds, and Other Capital Lease Obligations.

[4] Excludes Tax and Revenue Anticipation Notes, Enterprise Revenue, Mortgage Revenue and Non-Bonded Capital Lease Obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Sources: Avenu Insights and Analytics, LLC and Comprehensive Annual Financial Reports

CITY OF SAN DIEGO
LEGAL DEBT MARGIN SCHEDULE (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)

	Fiscal Year			
	2009	2010	2011	2012
Assessed valuation	$ 163,665,794	$ 162,644,868	$ 159,265,144	$ 160,469,868
Conversion percentage [1]	25%	25%	25%	25%
Adjusted assessed valuation	40,916,449	40,661,217	39,816,286	40,117,467
Debt limit percentage [2]	25%	25%	25%	25%
Debt limit [3]	10,229,112	10,165,304	9,954,072	10,029,367
Total net debt applicable to limit:				
General Obligation Bonds	6,315	4,340	2,240	—
Legal debt margin	10,222,797	10,160,964	9,951,832	10,029,367
Total debt applicable to the limit as a percentage of the debt limit	0.06%	0.04%	0.02%	—

[1] The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective in fiscal year 1982, each parcel is now assessed at 100% of market value. The calculations shown above present a conversion of assessed valuation data for each fiscal year from the current 100% valuation to the 25% level that was in effect at the time the legal debt margin was enacted.

[2] Section 90 of the City Charter provides that the bonded indebtedness for the development, conservation, and furnishings of water shall not exceed 15% of the last preceding assessed valuation of all real and personal property of the City subject to direct taxation, and that the bonded indebtedness for other municipal improvements shall not exceed 10% of such valuation.

[3] The current debt limitation for Water is 15% of the Adjusted Assessed Valuation, or $7,860,275 and the debt limitation for other purposes is 10% of the Adjusted Assessed Valuation, or $5,240,184.

Sources: Avenu Insights and Analytics, LLC and Comprehensive Annual Financial Reports

Table 13

Fiscal Year					
2013	**2014**	**2015**	**2016**	**2017**	**2018**
$ 159,632,171	$ 166,400,232	$ 176,780,832	$ 187,201,168	$ 197,315,411	$ 209,607,338
25%	25%	25%	25%	25%	25%
39,908,043	41,600,058	44,195,208	46,800,292	49,328,853	52,401,835
25%	25%	25%	25%	25%	25%
9,977,011	10,400,015	11,048,802	11,700,073	12,332,213	13,100,459
—	—	—	—	—	—
9,977,011	10,400,015	11,048,802	11,700,073	12,332,213	13,100,459
—	—	—	—	—	—

CITY OF SAN DIEGO
PLEDGED-REVENUE COVERAGE - WATER OBLIGATIONS (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)

Fiscal Year Ended June 30	Total System Revenues	Total Maintenance and Operation Costs	Net System Revenues [1]	Less: Interest Earnings on Reserve Fund-Senior Obligations	Adjusted Net System Revenues [2]
2009	$ 364,413	$ 263,280	$ 101,133	$ (2,668)	$ 98,465
2010	394,948	287,361	107,587	(3,767)	103,820
2011	397,755	285,059	112,696	(1,436)	111,260
2012	431,188	307,465	123,723	(1,919)	121,804
2013	444,751	342,989	101,762	(363)	101,399
2014	473,908	362,989	110,919	(1,017)	109,902
2015	468,274	381,389	86,885	(897)	85,988
2016	455,055	370,064	84,991	(4,474)	80,517
2017	498,520	402,475	96,045	(4)	96,041
2018 [6]	589,608	435,673	153,935	(35)	153,900

[1] As defined in the Amended and Restated Master Installment Purchase Agreement (MIPA), Net System Revenues are defined as "System Revenues" less "Maintenance and Operation Costs" of the Water System for the fiscal year.

[2] As defined in the MIPA, Adjusted Net System Revenues are the "Net System Revenues" less "an amount equal to earnings from investments in any Reserve Fund or Reserve Account" for the fiscal year.

[3] Includes Senior Bonds and State Revolving Fund (SRF) Loans. Utilizes definitions in accordance with the MIPA. Significant decrease in Adjusted Debt Service and increase in Adjusted Debt Service Coverage in FY 2017 because all outstanding Senior Bonds were refunded on a Subordinate lien in June 2016.

[4] All Obligations consist of Senior and Subordinate Bonds and State Revolving Fund (SRF) Loans. Utilizes definitions in accordance with the MIPA. Effective FY 2017, All Obligations includes debt service paid on Subordinate Commercial Paper Notes program. See Note 6.

[5] The coverage calculation as presented in Table 14 is pursuant to the MIPA coverage requirements such as maintaining minimum debt service coverage equal to at least equal to 1.20 for Senior Obligations and 1.00 for All Obligations. Additionally, there are various outstanding State Revolving Loans (SRF Loans) agreements pursuant to which the City has covenanted to maintain other coverage requirements such as maintaining minimum debt service coverage equal to at least 1.10 times the maximum annual debt service for All Obligations each Fiscal Year.

[6] Total System Revenues and affected coverage ratios are net of an approximate $8,000 transfer to the Water Rate Stabilization Fund. Aggregate Debt Service coverage before the transfer was approximately 2.47.

Source: City of San Diego, Department of Finance

Table 14

Senior Obligations [3]						All Obligations [4]	
Principal	Interest	Total	Less: Senior Interest Earnings	Adjusted Debt Service	Adjusted Debt Service Coverage [5]	Total Debt Service	Aggregate Debt Service Coverage [5]
$ 9,065	$ 12,289	$ 21,354	$ (2,668)	$ 18,686	5.27	$ 49,600	2.04
1,035	27,268	28,303	(3,767)	24,536	4.23	56,978	1.89
6,355	27,760	34,115	(1,436)	32,679	3.40	62,784	1.79
7,164	30,354	37,518	(1,919)	35,599	3.42	66,191	1.87
8,719	30,988	39,707	(363)	39,344	2.58	64,210	1.58
8,986	30,935	39,921	(1,017)	38,904	2.82	66,691	1.66
9,330	30,733	40,063	(897)	39,166	2.20	66,835	1.30
10,580	30,413	40,993	(4,474)	36,519	2.20	67,389	1.26
2,703	1,302	4,005	(4)	4,001	24.00	61,842	1.55
2,820	1,439	4,259	(35)	4,224	36.43	65,613	2.35

CITY OF SAN DIEGO **Table 15**
PLEDGED-REVENUE COVERAGE - SEWER OBLIGATIONS (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)

Fiscal Year Ended June 30	Total System Revenues	Total Maintenance and Operation Costs (Excludes Depreciation)	Net System Revenues [1]	Senior Obligations [2]			Senior Debt Service Coverage [4]	All Obligations [3]	
				Principal	Interest	Total		Total Debt Service	Aggregate Debt Service Coverage [4]
2009	$ 353,446	$ 197,379	$ 156,067	$ 31,700	$ 45,356	$ 77,056	2.03	$ 94,305	1.65
2010	406,076	220,701	185,375	43,320	59,909	103,229	1.80	109,288	1.70
2011	380,575	198,773	181,802	42,620	59,868	102,488	1.77	108,547	1.67
2012	391,587	202,132	189,455	44,230	58,253	102,483	1.85	108,542	1.75
2013	385,211	205,215	179,996	46,120	56,368	102,488	1.76	108,547	1.66
2014	396,042	210,981	185,061	48,821	54,473	103,294	1.79	109,353	1.69
2015	382,164	195,358	186,806	51,576	52,461	104,037	1.80	110,096	1.70
2016	368,195	192,185	176,010	66,187	34,633	100,820	1.75	106,879	1.65
2017	382,599	218,336	164,263	58,455	43,974	102,429	1.60	108,489	1.51
2018 [5]	388,395	223,013	165,382	61,751	41,376	103,127	1.60	109,185	1.51

[1] As defined in the Master Installment Purchase Agreement (MIPA), Net System Revenues are defined as "System Revenues" less "Maintenance and Operation Costs" of the Wastewater System for the fiscal year.

[2] Includes all Senior Bonds and State Revolving Fund (SRF) Loans and utilizes the definitions in accordance with the MIPA.

[3] All Obligations consist of Senior Bonds, Senior State Revolving Fund (SRF) Loans and Subordinate SRF Loans. Utilizes definitions in accordance with the MIPA.

[4] The coverage calculation as presented in Table 15 is pursuant to the MIPA, which requires a minimum debt service coverage should be at least equal to 1.20 for Senior Obligations and 1.00 for All Obligations. Additionally, there are various outstanding State Revolving Fund Loans (SRF Loans) agreements pursuant to which the City has covenanted to maintain other coverage requirements such as maintaining minimum debt service coverage equal to at least 1.20 the maximum annual debt service for Senior Obligations and 1.10 the maximum annual debt service for All Obligations in each Fiscal Year.

[5] Total System Revenues and affected coverage ratios are net of an approximate $7,500 transfer to the Sewer Rate Stabilization Fund. Aggregate Debt Service coverage before the transfer was approximately 1.58.

Source: City of San Diego, Department of Finance

CITY OF SAN DIEGO
DEMOGRAPHIC AND ECONOMIC STATISTICS (UNAUDITED)
Last Ten Fiscal Years

Table 16

Fiscal Year Ended June 30	Population [1]	Personal Income (Thousands)	Per Capita Personal Income [2]	City Unemployment Rate [3]
2009	1,333,617	$ 42,857,116	$ 32,136	6.0%
2010	1,359,132	43,522,125	32,022	9.7%
2011	1,311,882	40,336,436	30,747	10.2%
2012	1,321,315	42,754,529	32,358	9.5%
2013	1,326,238	43,540,765	32,830	8.9%
2014	1,345,895	45,869,488	34,081	6.1%
2015	1,368,061	46,297,920	33,842	4.6%
2016	1,391,676	47,718,552	34,289	4.9%
2017	1,406,318	50,542,056	35,939	4.4%
2018	1,419,845	54,274,285	38,225	3.1%

[1] Population projections are provided by the California Department of Finance Projections.

[2] Income data is provided by the United States Census Bureau.

[3] Unemployment Data is provided by the California Employment Development Department's Bureau of Labor Statistics Department.

Sources: Avenu Insights and Analytics, LLC and California Department of Finance

CITY OF SAN DIEGO
PRINCIPAL EMPLOYERS (UNAUDITED)
Current Year and Nine Years Ago

Table 17

Employer	Number of Employees	Percentage of Total Employment [1]
For the Fiscal Year Ended June 30, 2018		
Naval Base San Diego [2]	38,729	5.42%
University of California, San Diego [3]	37,412	5.24%
Sharp Health Care [4]	18,364	2.57%
County of San Diego	18,132	2.54%
San Diego Unified School District	13,815	1.93%
Scripps Health [5]	12,000	1.68%
City of San Diego [6]	11,538	1.61%
Qualcomm Inc [7]	10,700	1.50%
Kaiser Permanente [8]	9,599	1.34%
San Diego Community College District [9]	6,447	0.90%
Total Top Employers	176,736	24.73%
For the Fiscal Year Ended June 30, 2009		
Naval Base San Diego [2]	55,300	7.91%
San Diego Unified School District	21,959	3.14%
University of California San Diego [3]	19,435	2.78%
County of San Diego	17,900	2.56%
Sharp Health Care [4]	14,724	2.11%
City of San Diego [6]	10,799	1.54%
Kaiser Permanente [8]	7,220	1.03%
University of San Diego	6,086	0.87%
Qualcomm Inc [7]	6,000	0.86%
UC San Diego Medical Center	5,300	0.76%
Total Top Employers	164,723	23.56%

[1] Percentage based on total employment of 714,300 and 699,100 for fiscal years 2018 and 2009, respectively.

[2] Includes Active Duty Navy and Marine, and Civil Services employees.

[3] Includes full and part-time, academic and support, and UCSD Medical Center, School of Medicine.

[4] Employee count is countywide.

[5] Scripps Health employees within city limits, not including Mercy Hospital in Chula Vista.

[6] As of the last pay-period of the fiscal year.

[7] Excludes temps and interns.

[8] Includes physicians.

[9] Excludes out of state military instructors.

Sources: Avenu Insights and Analytics, LLC and City of San Diego, Department of Finance - Payroll Division

CITY OF SAN DIEGO **Table 18**
FULL-TIME AND PART-TIME CITY EMPLOYEES BY FUNCTION (UNAUDITED) [1]
Last Ten Fiscal Years

	Fiscal Year									
Function	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Government and Support	2,248	2,217	2,143	2,101	2,058	2,134	2,283	2,433	2,569	2,611
Public Safety - Police	2,674	2,547	2,409	2,402	2,427	2,489	2,519	2,577	2,540	2,564
Public Safety - Fire, Life Safety, Homeland Security	1,304	1,331	1,265	1,208	1,235	1,283	1,397	1,428	1,433	1,450
Parks, Recreation, Culture and Leisure	1,682	1,675	1,556	1,525	1,646	1,720	1,871	1,908	1,976	1,896
Transportation	279	282	280	276	298	325	337	376	409	403
Sanitation and Health	164	156	153	132	121	135	139	144	128	127
Neighborhood Services	145	132	137	127	141	152	162	172	169	185
Airports	16	16	17	17	18	16	18	21	19	17
Development Services	329	258	259	268	293	332	367	408	415	426
Environmental Services	168	172	160	157	153	145	154	145	139	103
Golf Course	97	93	89	100	98	106	106	108	102	114
Recycling	100	97	87	94	97	104	93	85	83	126
Sewer Utility	817	781	762	731	721	775	693	694	660	653
Water Utility	776	742	734	703	720	695	829	888	841	863
Total Employees	10,799	10,499	10,051	9,841	10,026	10,411	10,968	11,387	11,483	11,538

[1] As of the last pay-period of the fiscal year.

Source: City of San Diego, Department of Finance - Payroll Division

CITY OF SAN DIEGO
OPERATING INDICATORS BY FUNCTION (UNAUDITED)
Last Ten Fiscal Years

Function	Fiscal Year 2009	2010	2011	2012
Public Safety - Police				
Calls for Police Services Dispatched	668,989	653,086	633,328	583,629
Calls for 9-1-1 Emergencies	506,738	501,094	542,010	572,808
Public Safety - Fire and Life Safety and Homeland Security				
Fire Department:				
Emergency Calls - Fire	3,868	2,740	2,559	2,557
Emergency Calls - Medical/Rescue	94,422	97,049	100,460	104,086
Emergency Calls - Other	13,671	14,295	15,245	16,478
Lifeguard:				
Water Rescues	5,233	5,066	4,187	6,011
Other Rescues	4,813	5,002	5,574	6,094
Beach Attendance	21,166,884	25,774,465	22,186,170	24,558,435
Parks, Recreation, Culture and Leisure				
Parks and Recreation:				
Number of Aquatic Users	311,173	303,200	299,145	304,900
Number of Youth Served in After School Program Sites	84,140	89,790	92,035	78,500
Library:				
Circulation	7,651,619	7,706,431	7,129,443	6,973,727
Total Attendance - All Libraries	6,601,210	6,143,281	5,771,767	5,602,380
Sewer Utility				
Average Daily Sewage Flow (millions of gallons)	171	166	170	164
Average Daily Peak - Maximum Sewage Flow (millions of gallons)	268	288	410	226
System Daily Capacity (millions of gallons)	255	255	255	255
Water Utility				
Average Daily Production (millions of gallons)	194	179	171	172
Maximum Daily Production (millions of gallons)	283	243	239	247
Total Water Consumption (millions of gallons)	70,893	59,567	56,760	60,944
Total Water Production (millions of gallons)	77,014	65,644	62,511	63,240

[1] Number of Calls for 9-1-1 emergencies is missing calls received during June 4th through June 30th, 2014.
[2] Number of calls for police dispatch is unavailable for FY18 due to a new computer aided dispatch system implementation.

Source: City Departments

Table 19

Fiscal Year					
2013	**2014**	**2015**	**2016**	**2017**	**2018**
570,628	583,556	562,360	529,564	515,351	(2)
605,015	583,391 [1]	626,694	615,158	595,309	622,696
3,659	3,184	5,591	5,639	5,845	6,288
112,864	113,858	124,189	136,750	138,632	140,704
12,698	12,838	12,748	11,875	12,024	11,531
5,482	5,299	6,673	7,835	8,611	8,830
6,714	5,486	6,281	5,584	5,265	4,829
23,403,527	23,414,313	24,928,079	17,939,665	16,266,398	17,723,916
308,025	296,000	311,788	304,125	321,751	315,315
81,889	109,670	107,515	108,160	128,774	147,516
6,956,000	6,877,913	6,923,853	6,840,359	6,322,664	77,439,703
5,818,941	6,170,931	6,654,351	6,940,237	6,591,169	6,772,535
160	155	149	146	156	146
207	196	187	220	298	196
255	255	255	255	255	255
181	188	171	150	158	166
249	267	243	215	220	218
62,501	65,552	60,474	54,702	49,209	52,015
66,167	68,457	62,289	54,875	57,709	60,532

CITY OF SAN DIEGO
CAPITAL ASSET STATISTICS BY FUNCTION (UNAUDITED)
Last Ten Fiscal Years

Function	Fiscal Year 2009	2010	2011	2012
Public Safety - Police				
Stations [1]	10	10	10	10
Public Safety - Fire and Life Safety and Homeland Security				
Fire Stations	47	47	47	47
Parks, Recreation, Culture and Leisure				
Parks and Recreation Sites	384	385	385	387
Transportation				
Miles of Streets - Concrete and Asphalt [2]	2,721	2,774	2,774	2,774
Airports				
Municipal Airports	2	2	2	2
Golf Course				
Municipal Golf Courses [3]	10	10	10	10
Sewer Utility				
Miles of Sewers	3,023	2,991	3,146	3,017
Sewer Service Laterals	273,438	273,587	274,464	274,788
Water Utility				
Miles of Water Distribution Mains	3,281	3,294	3,190	3,277
Water Meters in Service	274,310	276,217	274,310	276,478
Fire Hydrants	25,023	25,044	25,060	25,098

[1] Includes Headquarters and Traffic.

[2] Numbers for 2016 - 2018 includes alleys.

[3] Includes City operated as well as leased golf courses.

Sources: Comprehensive Annual Financial Reports and City Departments

Table 20

Fiscal Year					
2013	**2014**	**2015**	**2016**	**2017**	**2018**
10	11	11	11	11	11
47	47	47	48	48	49
387	387	387	387	390	395
2,777	2,777	2,778	2,981	2,964	2,996
2	2	2	2	2	2
10	10	10	10	10	10
3,021	3,020	3,026	3,031	3,031	3,032
275,404	261,632	261,837	264,652	262,275	262,252
3,294	3,376	3,384	3,295	3,294	3,295
276,998	278,241	279,625	280,631	283,751	284,202
25,157	25,195	25,364	25,492	25,533	25,534

County of San Diego

Department of Environmental Health
Land and Water Quality Division

www.sdcdeh.org

San Diego Office
5500 Overland Avenue, Suite 210
San Diego, CA 92123
(858) 565-5173

San Marcos Office
151 E. Carmel Street
San Marcos, CA 92078
(760) 471-0730

State Approved Laboratories for Water Quality Analysis

Below is a listing of state approved laboratories for drinking water and/or wastewater analysis. The following list is provided for information only. The County of San Diego does not endorse the businesses listed. A more comprehensive listing can be found at http://www.cdph.ca.gov/certlic/labs/Pages/ELAP.aspx.

Drinking Water and Wastewater Analysis			
Name	**Address**	**Phone/Email**	**Field of Test (FOT)**
Analytical Chemical Labs, Inc.	1123 West Morena Blvd. San Diego, CA 92110	(619) 276-1558	101-103,108,109
Associated Laboratories	806 N. Batavia Orange, CA 92868	(714) 771-6900 www.associatedlabs.com	101-105,107-111, 113
ATS Laboratories	104 South 8th Street Brawley, CA 92227	(760) 344-2532	101,102,107,108
Clarkson Lab & Supply, Inc.	350 Trousdale Drive Chula Vista, CA 91910	(619) 425-1993 www.clarksonlab.com	101,102,108,109
Clinical Laboratory of San Bernardino	21881 Barton Road Grand Terrace, CA 92313	(909) 825-7693 www.clinical-lab.com	101-110,112
D-Tek Analytical Laboratories	2722 Loker Avenue W, Ste. B Carlsbad, CA 92010	(760) 930-2555 www.dteklabs.com	101-103,107-109, 111
Enviromatrix Analytical, Inc.	4340 Viewridge Ave., Ste. A San Diego, CA 92123	(858) 560-7717 www.enviromatrixinc.com	101-103,107-111
IEH Environmental Engineering Laboratory	3538 Hancock St. San Diego, CA 92110	(619) 298-6131 www.ieheel.com	101,102,106-109,113
MWH Laboratories	750 Royal Oaks Dr., Ste. 100 Monrovia, CA 91016-3629	(626) 386-1100 www.mwhlabs.com	101-106,110
Pat-Chem Laboratories SD	8525 Gibbs Dr, Ste 301 San Diego, CA 92123	858-505-0835 X104 www.pat-chem.com	101,107
TestAmerica	1014 E. Cooley Dr., Ste A-F Colton, CA 92324	(909) 370-4667 www.testamericainc.com	101,104,105,107,108
Wastewater Analysis Only			
Name	**Address**	**Phone/Email**	**Field of Test (FOT)**
Motile Laboratory Services	537 Vine Street Oceanside, CA 92054	(760) 840-0577	107
Western Solutions, Inc.	2433 Impala Drive Carlsbad, CA 92008	(760) 795-6900 www.westonsolutions.com	107,113

Fields of Testing (FOT):

101 – Microbiology of Drinking Water
102 – Inorganic Chemistry of Drinking Water
103 – Toxic Chemical Elements of Drinking Water
104 – Volatile Organic Chemistry of Drinking Water
105 – Semi-volatile Organic Chemistry of Drinking Water
106 – Radiochemistry of Drinking Water
107 - Microbiology of Wastewater
108 - Inorganic Chemistry of Wastewater
109 - Toxic Chemical Elements of Wastewater
110 - Volatile Organic Chemistry of Wastewater
111 - Semi-volatile Organic Chemistry of Wastewater
112 - Radiochemistry of Wastewater
113 – Whole Effluent Toxicity of Wastewater

AMENDED AND RESTATED
MASTER INSTALLMENT PURCHASE AGREEMENT

by and between the

CITY OF SAN DIEGO

and the

SAN DIEGO FACILITIES AND EQUIPMENT LEASING CORPORATION

Dated as of January 1, 2009

Relating To

**INSTALLMENT PAYMENTS PAYABLE FROM
NET SYSTEM REVENUES OF
THE WATER UTILITY FUND
OF THE CITY OF SAN DIEGO, CALIFORNIA**

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AMENDED AND RESTATED
MASTER INSTALLMENT PURCHASE AGREEMENT

This AMENDED AND RESTATED MASTER INSTALLMENT PURCHASE AGREEMENT (the "Installment Purchase Agreement"), made and entered into as of January 1, 2009, by and between the CITY OF SAN DIEGO, a municipal corporation organized and existing under a charter duly adopted pursuant to the provisions of the Constitution of the State of California (the "City"), and the SAN DIEGO FACILITIES AND EQUIPMENT LEASING CORPORATION, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation"),

WITNESSETH:

WHEREAS, the City proposes to undertake the acquisition, construction, installation and improvement of its water system (the "Water System") as more fully described in Exhibit A hereof and as modified from time to time (the "Project" and, initially, the "1998 Project");

WHEREAS, the Corporation has agreed to assist the City by financing the construction of the Project for the City;

WHEREAS, the City has determined that its purchase of improvements to the Water System by undertaking the Project is necessary and proper for City uses and purposes;

WHEREAS, the Corporation proposes to sell components of the Project from time to time to the City and the City desires to purchase components of the Project from the Corporation upon the terms and conditions set forth herein;

WHEREAS, since the date upon which the Master Installment Purchase Agreement was initially executed by the City and the Corporation, being August 1, 1998 (the "Original MIPA"), the City and the Corporation, with the prior written consent of the appropriate Credit Providers (as defined herein), entered into certain supplements thereto, the effect of which was to amend certain substantive provisions of the Original MIPA (collectively, the "Amendatory Supplements"); and

WHEREAS, the Amendatory Supplements were entered into in full compliance with the provisions of Section 10.03(a) of the Original MIPA; and

WHEREAS, the City and the Corporation have determined for administrative purposes to consolidate the Amendatory Supplements with the Original MIPA and to make certain clarifications and corrections to the Original MIPA in connection therewith; and

WHEREAS, the City and the Corporation have duly authorized the execution of this Installment Purchase Agreement;

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and delivery of this Installment Purchase Agreement do exist, have happened and have been performed in

regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Installment Purchase Agreement;

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

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section shall for all purposes hereof and of any amendment hereof or supplement hereto and of any report or other document mentioned herein or therein have the meanings defined herein, all of the following definitions shall be equally applicable to both the singular and plural forms of any of the terms defined herein:

Accountant's Report

The term "Accountant's Report" means a report signed by an Independent Certified Public Accountant.

Acquisition Fund

The term "Acquisition Fund" means the fund by that name established pursuant to any Issuing Instrument.

Adjusted Debt Service

The term "Adjusted Debt Service" means, for any Fiscal Year, Debt Service on Parity Obligations for such Fiscal Year, minus an amount equal to earnings from investments in any Reserve Fund securing Parity Obligations for such Fiscal Year.

Adjusted Net System Revenues

The term "Adjusted Net System Revenues" means, for any Fiscal Year, the Net System Revenues for such Fiscal Year, minus an amount equal to earnings from investments in any Reserve Fund securing Parity Obligations for such Fiscal Year.

Authorized City Representative

The term "Authorized City Representative" means the Chief Financial Officer of the City or such other officer or employee of the City or other person who has been designated in writing as such representative by the Chief Financial Officer.

Authorizing Ordinance

The term "Authorizing Ordinance" means the ordinance pursuant to which this Installment Purchase Agreement was authorized and any additional ordinance or official authorizing act of the council of the City approving execution and delivery of any Supplement to this Installment Purchase Agreement or any Issuing Instrument.

Balloon Indebtedness

The term "Balloon Indebtedness" means, with respect to any Series of Obligations twenty-five percent (25%) or more of the principal of which matures on the same date or within a 12-month period (with sinking fund payments on Term Obligations deemed to be payments of matured principal), that portion of such Series of Obligations which matures on such date or within such 12-month period; provided, however, that to constitute Balloon Indebtedness the amount of indebtedness maturing on a single date or over a 12-month period must equal or exceed 150% of the amount of such Series of Obligations which matures during any preceding 12-month period. For purposes of this definition, the principal amount maturing on any date shall be reduced by the amount of such indebtedness which is required, by the documents governing such indebtedness, to be amortized by prepayment or redemption prior to its stated maturity date.

Bond Counsel

The term "Bond Counsel" means a firm of attorneys which is nationally recognized in the area of municipal finance selected by the City.

Capacity Charge

The term "Capacity Charge" means a charge imposed upon a person, firm, corporation or other entity incident to the granting of a permit for a new water connection or due to an increase in water usage by the addition of any type of dwelling, commercial or industrial unit, which charge is based upon an increase in water consumption as measured by equivalent dwelling units, and the proceeds of which are used to construct, improve and expand the Water System to accommodate the additional business of such added dwellings or commercial or industrial units.

Charter

The term "Charter" means the Charter of the City as it now exists or may hereafter be amended, and any new or successor Charter.

City

The term "City" means the City of San Diego, a municipal corporation organized and existing under the Charter and the Constitution of the State of California.

Code

The term "Code" means the Internal Revenue Code of 1986, and the regulations thereunder, as amended, and any successor provisions of law.

Components

The term "Components" means components of the Project specified on Exhibit A or in a Supplement.

Consultant

The term "Consultant" means the consultant, consulting firm, engineer, architect, engineering firm, architectural firm, accountant or accounting firm retained by the City to perform acts or carry out the duties provided for such consultant in this Installment Purchase Agreement. Such consultant, consulting firm, engineer, architect, engineering firm or architectural firm shall be nationally recognized within its profession for work of the character required. Such accountants or accounting firm shall be independent certified public accountants licensed to practice in the State of California.

Comptroller

The term "Comptroller" means the Comptroller of the City.

Corporation

The term "Corporation" means the San Diego Facilities and Equipment Leasing Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State.

Credit Provider

The term "Credit Provider" means any municipal bond insurance company, bank or other financial institution or organization which is performing in all material respects its obligations under any Credit Support Instrument for some or all of the Parity Obligations.

Credit Provider Reimbursement Obligations

The term "Credit Provider Reimbursement Obligations" means obligations of the City to repay, from Net System Revenues, amounts advanced by a Credit Provider as credit support or liquidity for Parity Obligations, which obligations shall constitute Parity Obligations or Subordinated Obligations, as designated by the City.

Credit Support Instrument

The term "Credit Support Instrument" means a policy of insurance, a letter of credit, a standby purchase agreement, revolving credit agreement or other credit arrangement pursuant to

which a Credit Provider provides credit support or liquidity with respect to the payment of interest, principal or the purchase price of any Parity Obligations.

Debt Service

With regard to the issuance of Parity Obligations, the term "Debt Service" means, for any Fiscal Year, the sum of (a) the interest payable during such Fiscal Year on all Outstanding Parity Obligations, assuming that all Outstanding Serial Parity Obligations are retired as scheduled and that all Outstanding Term Parity Obligations are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Parity Obligations), (b) that portion of the principal amount of all Outstanding Serial Parity Obligations maturing on the next succeeding principal payment date which falls in such Fiscal Year (excluding Serial Obligations which at the time of issuance are intended to be paid from the sale of a corresponding amount of Parity Obligations), (c) that portion of the principal amount of all Outstanding Term Parity Obligations required to be redeemed or paid on any redemption date which falls in such Fiscal Year (together with the redemption premiums, if any, thereon); provided that, (1) as to any Balloon Indebtedness, Tender Indebtedness and Variable Rate Indebtedness, interest thereon shall be calculated as provided in the definition of Maximum Annual Debt Service and principal shall be deemed due at the nominal maturity dates thereof; (2) the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of the Parity Obligations for which such debt service reserve fund was established and in each preceding year until such amount is exhausted; and (3) the amount of payments on account of Parity Obligations which are redeemed, retired or repaid on the basis of the accreted value due on the scheduled redemption, retirement or repayment date shall be deemed principal payments, and interest that is compounded and paid as part of the accreted value shall be deemed payable on the scheduled redemption, retirement or repayment date, but not before.

With regard to the issuance of Subordinated Obligations, the term "Debt Service" means, for any Fiscal Year, the sum of (a) the interest payable during such Fiscal Year on all Outstanding Obligations, assuming that all Outstanding Serial Obligations are retired as scheduled and that all Outstanding Term Obligations are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Obligations), (b) that portion of the principal amount of all Outstanding Serial Obligations maturing on the next succeeding principal payment date which falls in such Fiscal Year (excluding Serial Obligations which at the time of issuance are intended to be paid from the sale of a corresponding amount of other Obligations) (c) that portion of the principal amount of all Outstanding Term Obligations required to be redeemed or paid on any redemption date which falls in such Fiscal Year (together with the redemption premiums, if any, thereon) provided that, (1) as to any Balloon Indebtedness, Tender Indebtedness and Variable Rate Indebtedness, interest thereon shall be calculated as provided in the definition of Maximum Annual Debt Service and principal shall be deemed due at the nominal maturity dates thereof; (2) the amount on deposit in a Reserve Fund on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of the Obligations for which such Reserve Fund was established and in each preceding year, until such amount is exhausted; and (3) the amount of payments on account of Obligations which are redeemed, retired or repaid on the basis of the accreted value due on the scheduled redemption, retirement or repayment date shall be deemed

principal payments, and interest that is compounded and paid as part of the accreted value thereof shall be deemed payable on the scheduled redemption, retirement or repayment date, but not before.

Default Rate

The term "Default Rate" means the Maximum Rate.

Defaulted Obligations

The term "Defaulted Obligations" means Obligations in respect of which an Event of Default has occurred and is continuing.

Engineer's Report

The term "Engineer's Report" means a report signed by an Independent Engineer.

Event of Default

The term "Event of Default" means any occurrence or event described in Section 8.01 hereof.

Feasibility Report

The term "Feasibility Report" means a report of a Consultant with special expertise on the construction and operation of water systems similar to the Water System, delivered in connection with the incurrence of Additional Obligations.

Fiscal Year

The term "Fiscal Year" means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period selected and designated as the official Fiscal Year of the City.

Independent Certified Public Accountant

The term "Independent Certified Public Accountant" means any firm of certified public accountants appointed by the City, and each of whom is independent pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

Independent Engineer

The term "Independent Engineer" means any registered engineer or firm of registered engineers of national reputation generally recognized to be well qualified in engineering matters relating to water systems, appointed and paid by but not under the control of the City.

Installment Payment Date

The term "Installment Payment Date" means any date on which an Installment Payment is due as specified herein or determined pursuant to a Supplement.

Installment Payments

The term "Installment Payments" means the Installment Payments scheduled to be paid by the City under and pursuant hereto and any Supplement.

Installment Payment Obligations

The term "Installment Payment Obligations" means Obligations consisting of or which are supported in whole by Installment Payments.

Installment Purchase Agreement

The term "Installment Purchase Agreement" means this Amended and Restated Master Installment Purchase Agreement, by and between the City and the Corporation, dated as of January 1, 2009, as originally executed and as it may from time to time be amended or supplemented in accordance herewith.

Issuing Instrument

The term "Issuing Instrument" shall mean any indenture, trust agreement, loan agreement, lease, installment purchase agreement or this Installment Purchase Agreement, including any Supplement or other instrument under which Obligations are issued or created.

Law

The term "Law" means the Charter and all applicable laws of the State.

Maintenance and Operation Costs of the Water System

The term "Maintenance and Operation Costs of the Water System" means (a) any Qualified Take or Pay Obligation, and (b) the reasonable and necessary costs spent or incurred by the City for maintaining and operating the Water System, calculated in accordance with generally accepted accounting principles, including, without limitation, the costs of the purchase, delivery or storage of water, the reasonable expenses of maintenance and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including administrative costs of the City attributable to the Water System, including the Project and this Installment Purchase Agreement, salaries and wages of employees of the Water System, payments to such employees' retirement systems (to the extent paid from System Revenues), overhead, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Obligations, including this Installment Purchase Agreement, including any amounts required to be deposited in the Rebate Fund pursuant to a Tax Certificate, and fees and expenses payable to any Credit Provider (other

than in repayment of a Credit Provider Reimbursement Obligation), but excluding in all cases (1) depreciation, replacement and obsolescence charges or reserves therefor, (2) amortization of intangibles or other bookkeeping entries of a similar nature, (3) costs of capital additions, replacements, betterments, extensions or improvements to the Water System which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, (4) charges for the payment of principal of and interest on any general obligation bond heretofore or hereafter issued for Water System purposes, and (5) charges for the payment of principal of and interest on any debt service on account of any Obligation on a parity with or subordinate to the Installment Payments.

Maximum Annual Debt Service

The term "Maximum Annual Debt Service" means,

(A) with respect to Parity Obligations then Outstanding, the maximum amount of principal and interest becoming due on the Parity Obligations in the then-current or any future Fiscal Year, calculated by the City or by an Independent Certified Public Accountant in accordance with this subsection and provided to the Trustee. For purposes of calculating Maximum Annual Debt Service, the following assumptions shall be used to calculate the principal and interest becoming due in any Fiscal Year:

(i) in determining the principal amount due in each Fiscal Year, payments shall (except to the extent a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including the amount of any Parity Obligations which are or have the characteristics of commercial paper and which are not intended at the time of issuance to be retired from the sale of a corresponding amount of Parity Obligations, and including any scheduled mandatory redemption or prepayment of Parity Obligations on the basis of accreted value due upon such redemption or prepayment, and for such purpose, the redemption payment or prepayment shall be deemed a principal payment; provided, however, that with respect to Parity Obligations which are or have the characteristics of commercial paper and which are intended at the time of issuance to be retired from the sale of a corresponding amount of other Obligations, which other Obligations would not constitute Balloon Indebtedness, each maturity thereof shall be treated as if it were to be amortized in substantially equal installments of principal and interest over a term of 30 years, commencing in the year of such stated maturity; in determining the interest due in each Fiscal Year, interest payable at a fixed rate shall (except to the extent subsection (A)(ii) or (iii) of this definition applies) be assumed to be made at such fixed rate and on the required payment dates;

(ii) if all or any portion or portions of an Outstanding Series of Parity Obligations constitute Balloon Indebtedness or if all or any portion or portions of a Series of Parity Obligations or such payments then proposed to be issued would constitute Balloon Indebtedness, then, for purposes of determining Maximum Annual Debt Service, each maturity which constitutes Balloon Indebtedness shall

be treated as if it were to be amortized in substantially equal annual installments of principal and interest over a term of 30 years, commencing in the year the stated maturity of such Balloon Indebtedness occurs, the interest rate used for such computation shall be determined as provided in subsection (A)(iv) or (v) below, as appropriate, and all payments of principal and interest becoming due prior to the year of the stated maturity of the Balloon Indebtedness shall be treated as described in subsection (A)(i) above;

(iii) if any Outstanding Series of Parity Obligations constitutes Tender Indebtedness or if Parity Obligations proposed to be issued would constitute Tender Indebtedness, then for purposes of determining Maximum Annual Debt Service, Tender Indebtedness shall be treated as if the principal amount of such Parity Obligations were to be amortized in accordance with the amortization schedule set forth in the Supplement or Issuing Instrument for such Tender Indebtedness or in the standby purchase or liquidity facility established with respect to such Tender Indebtedness, or if no such amortization schedule is set forth, then such Tender Indebtedness shall be deemed to be amortized in substantially equal annual installments of principal and interest over a term of 30 years commencing in the year in which such Series is first subject to tender, the interest rate used for such computation shall be determined as provided in subsection (A)(iv) or (v) below, as appropriate;

(iv) if any Outstanding Series of Parity Obligations constitutes Variable Rate Indebtedness, the interest rate on such Obligations shall be assumed to be 110% of the daily average interest rate on such Parity Obligations during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Parity Obligations shall have been Outstanding;

(v) if Parity Obligations proposed to be issued will be Variable Rate Indebtedness, then such Parity Obligations shall be assumed to bear interest at 80% of the average Revenue Bond Index during the calendar quarter preceding the calendar quarter in which the calculation is made, or if that index is no longer published, another similar index selected by the City, or if the City fails to select a replacement index, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity, or if there are no such Treasury bonds having such maturities, 100% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States ranked by assets; and

(vi) if moneys or Permitted Investments have been deposited by the City into a separate fund or account or are otherwise held by the City or by a fiduciary to be used to pay principal of and/or interest on specified Parity Obligations, then the principal and/or interest to be paid from such moneys, Permitted Investments or from the earnings thereon shall be disregarded and not included in calculating Maximum Annual Debt Service.

(B) with regard to all Obligations then Outstanding, the maximum amount of principal and interest becoming due on the Obligations in the then-current or any future Fiscal Year, calculated by the City or by an Independent Certified Public Accountant in accordance with this subsection and provided to the Trustee. For purposes of calculating Maximum Annual Debt Service, the following assumptions shall be used to calculate the principal and interest becoming due in any Fiscal Year:

(i) in determining the principal amount due in each Fiscal Year, payments shall (except to the extent a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including the amount of any Obligations which are or have the characteristics of commercial paper and which are not intended at the time of issuance to be retired from the sale of a corresponding amount of Obligations, and including any scheduled mandatory redemption or prepayment of Obligations on the basis of accreted value due upon such redemption or prepayment, and for such purpose, the redemption payment or prepayment shall be deemed a principal payment; provided, however, that with respect to Obligations which are or have the characteristics of commercial paper and which are intended at the time of issuance to be retired from the proceeds of sale of a corresponding amount of other Obligations, and which would not constitute Balloon Indebtedness, each maturity thereof shall be treated as if it were to be amortized in substantially equal installments of principal and interest over a term of 30 years, commencing in the year of such stated maturity; in determining the interest due in each Fiscal Year, interest payable at a fixed rate shall (except to the extent subsection (B)(ii) or (iii) of this definition applies) be assumed to be made at such fixed rate and on the required payment dates;

(ii) if all or any portion or portions of an Outstanding Series of Obligations constitute Balloon Indebtedness or if all or any portion or portions of a Series of Obligations or such payments then proposed to be issued would constitute Balloon Indebtedness, then, for purposes of determining Maximum Annual Debt Service, each maturity which constitutes Balloon Indebtedness shall be treated as if it were to be amortized in substantially equal annual installments of principal and interest over a term of 30 years, commencing in the year the stated maturity of such Balloon Indebtedness occurs, the interest rate used for such computation shall be determined as provided in subsection (B)(iv) or (v) below, as appropriate, and all payments of principal and interest becoming due prior to the year of the stated maturity of the Balloon Indebtedness shall be treated as described in subsection (B)(i) above;

(iii) if any Outstanding Series of Obligations constitutes Tender Indebtedness or if Obligations proposed to be issued would constitute Tender Indebtedness, then for purposes of determining Maximum Annual Debt Service, Tender Indebtedness shall be treated as if the principal amount of such Obligations were to be amortized in accordance with the amortization schedule set forth in the Supplement or Issuing Instrument for such Tender Indebtedness or

in the standby purchase or liquidity facility established with respect to such Tender Indebtedness, or if no such amortization schedule is set forth, then such Tender Indebtedness shall be deemed to be amortized in substantially equal annual installments of principal and interest over a term of 30 years, commencing in the year in which such Obligations are first subject to tender, the interest rate used for such computation shall be determined as provided in subsection (B)(iv) or (v) below, as appropriate;

(iv) if any Outstanding Series of Obligations constitute Variable Rate Indebtedness, the interest rate on such Series of Obligations shall be assumed to be 110% of the daily average interest rate on such Series of Obligations during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Series of Obligations shall have been Outstanding;

(v) if Obligations proposed to be issued will be Variable Rate Indebtedness, then such Obligations shall be assumed to bear interest at 80% of the average Revenue Bond Index during the calendar quarter preceding the calendar quarter in which the calculation is made, or if that index is no longer published, another similar index selected by the City, or if the City fails to select a replacement index, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity, or if there are no such Treasury bonds having such maturities, 100% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States ranked by assets; and

(vi) if moneys or Permitted Investments have been deposited by the City into a separate fund or account or are otherwise held by the City or by a fiduciary to be used to pay principal and/or interest on specified Obligations, then the principal and/or interest to be paid from such moneys, Permitted Investments or from the earnings thereon shall be disregarded and not included in calculating Maximum Annual Debt Service.

Maximum Rate

The term "Maximum Rate" means, on any day, the maximum interest rate allowed by law.

Moody's

The term "Moody's" means Moody's Investors Service, Inc., a Delaware corporation, and its successors, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City.

Net Proceeds

The term "Net Proceeds" means, when used with respect to any insurance, self-insurance or condemnation award, the proceeds from such award that are remaining after payment of all expenses (including attorneys' fees) incurred in the collection of such proceeds.

Net System Revenues

The term "Net System Revenues" means, for any Fiscal Year, the System Revenues for such Fiscal Year, less the Maintenance and Operation Costs of the Water System for such Fiscal Year.

Obligations

The term "Obligations" means (a) obligations of the City for money borrowed (such as bonds, notes or other evidences of indebtedness) or as installment purchase payments under any contract (including Installment Payments), or as lease payments under any financing lease (determined to be such in accordance with generally accepted accounting principles), the principal of and interest on which are payable from Net System Revenues; (b) obligations to replenish any debt service reserve funds with respect to such obligations of the City; (c) obligations secured by or payable from any of such obligations of the City; and (d) obligations of the City payable from Net System Revenues under (1) any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, (2) any contract to exchange cash flows or a series of payments, or (3) any contract to hedge payment, currency, rate spread or similar exposure, including but not limited to interest rate cap agreements.

Outstanding

The term "Outstanding," when used as of any particular time with respect to Obligations, means all Obligations theretofore or thereupon executed, authenticated and delivered by the City or any trustee or other fiduciary, *except* (a) Obligations theretofore cancelled or surrendered for cancellation; (b) Obligations paid or deemed to be paid within the meaning of any defeasance provisions thereof; (c) Obligations owned by the City; and (d) Obligations in lieu of or in substitution for which other Obligations have been executed and delivered.

Owner

The term "Owner" means any person who shall be the registered owner of any certificate or other evidence of a right to receive Installment Payments directly or as security for payment of an Outstanding Obligation.

Parity Installment Obligation

The term "Parity Installment Obligation" means Obligations consisting of or payable from Installment Payments which are not subordinated in right of payment to other Installment Payments.

Parity Obligations

The term "Parity Obligations" means (a) Parity Installment Obligations, (b) Obligations, the principal of and interest on which are payable on a parity with Parity Installment Obligations, and (c) Reserve Fund Obligations.

Payment Fund

The term "Payment Fund" means the fund designated in the Issuing Instrument as the fund into which Installment Payments are to be deposited for the purposes of paying principal of or interest on related Obligations.

Permitted Investments

The term "Permitted Investments" means investments which pursuant to an Issuing Instrument are permissible for the investment of funds received from the sale of Obligations pursuant to the Issuing Document or from other funds held pursuant to the Issuing Instrument.

Project; 1998 Project

The term "Project" means the construction, replacement and improvements to the Water System described in Exhibit A hereto, as it may be modified from time to time in conformance with Section 3.02 hereof. The term "1998 Project" means the Components of the Project initially financed hereunder.

Purchase Price

The term "Purchase Price" means the principal amount, plus interest thereon, owed by the City to the Corporation under the terms hereof for the purchase of Project Components, as provided in Section 4.01 and as specified herein or in a Supplement.

Qualified Take or Pay Obligation

The term "Qualified Take or Pay Obligation" means the obligation of the City to make use of any facility, property or services, or some portion of the capacity thereof, or to pay therefor from System Revenues, or both, whether or not such facilities, properties or services are ever made available to the City for use, and there is provided to the City a certificate of the City or of an Independent Engineer to the effect that the incurrence of such obligation will not adversely affect the ability of the City to comply with the provisions of Section 6.08(a).

Rate Stabilization Fund

The term "Rate Stabilization Fund" means the fund by that name established pursuant to Section 6.08 hereof.

Rating Agencies

The term "Rating Agencies" means Moody's and S&P, or whichever of them and any other rating agency that is then rating Obligations.

Rebate Fund

The term "Rebate Fund" means the fund by that name established pursuant to any Issuing Instrument.

Rebate Requirement

The term "Rebate Requirement" shall have the meaning specified in any Tax Certificate.

Reserve Fund

The term "Reserve Fund" shall refer to the fund by that name established under in an Issuing Instrument or Supplement.

Reserve Fund Obligations

The term "Reserve Fund Obligations" means the obligations of the City to pay amounts advanced under any Reserve Fund Credit Facility entered into in accordance with the provisions of the related Issuing Instrument or Supplement, which obligations shall constitute Parity Obligations or Subordinated Obligations, as designated by the City.

Reserve Fund Credit Facility

The term "Reserve Fund Credit Facility" shall mean a letter of credit, line of credit, surety bond, insurance policy or similar facility deposited in the Reserve Fund established under an Issuing Instrument in lieu of or in partial substitution for cash or securities on deposit therein.

Reserve Requirement

The term "Reserve Requirement" shall have the meaning given to such term in any Issuing Instrument or Supplement.

Revenue Bond Index

The term "Revenue Bond Index" means the Revenue Bond Index by that name published from time to time in *The Bond Buyer*.

S&P

The term "S&P" means Standard & Poor's, a division of the McGraw-Hill Companies, a New York corporation, and its successors, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City.

Secondary Purchase Fund

The term "Secondary Purchase Fund" means the fund by that name established pursuant to Section 6.08 hereof.

Serial Obligations

The term "Serial Obligations" means Obligations for which no sinking fund payments are provided.

Serial Parity Obligations

The term "Serial Parity Obligations" means Serial Obligations which are Parity Installment Payments or are payable on a parity with Parity Installment Obligations.

Series

The term "Series" means Obligations issued at the same time or sharing some other common term or characteristic and designated as a separate Series.

State

The term "State" means the State of California.

Subordinated Credit Provider

The term "Subordinated Credit Provider" means any municipal bond insurance company, bank or other financial institution or organization which is performing in all respects its obligations under any Subordinated Credit Support Instrument for some or all of the Subordinated Obligations.

Subordinated Credit Provider Reimbursement Obligations

The term "Subordinated Credit Provider Reimbursement Obligations" means obligations of the City to repay, from Net System Revenues, amounts advanced by a Subordinated Credit Provider as credit support or liquidity for Subordinated Obligations, which obligations shall constitute Subordinated Obligations.

Subordinated Credit Support Instrument

The term "Subordinated Credit Support Instrument" means a policy of insurance, a letter of credit, a standby purchase agreement, revolving credit agreement or other credit arrangement pursuant to which a Subordinated Credit Provider provides credit support or liquidity with respect to the payment of interest, principal or the purchase price of any Subordinated Obligations.

Subordinated Obligations

The term "Subordinated Obligations" means any Obligations, the payment of which is subordinated in right of payment to Parity Obligations.

Supplement

The term "Supplement" means a supplement to this Installment Purchase Agreement providing for the payment of specific Installment Payments as the Purchase Price for additional Components of the Project, executed and delivered by the City and the Corporation.

System Revenues

The term "System Revenues" means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Water System, including, without limiting the generality of the foregoing:

(a) all income, rents, rates, fees, charges, or other moneys derived by the City from the water services or facilities, and commodities or byproducts, including hydroelectric power, sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, and including, without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Water System by or pursuant to law, and earnings on any Reserve Fund for Obligations, but only to the extent that such earnings may be utilized under the Issuing Instrument for the payment of debt service for such Obligations;

(b) standby charges and Capacity Charges* derived from the services and facilities sold or supplied through the Water System;

(c) the proceeds derived by the City directly or indirectly from the lease of a part of the Water System;

(d) any amount received from the levy or collection of taxes which are solely available and are earmarked for the support of the operation of the Water System;

(e) amounts received under contracts or agreements with governmental or private entities and designated for capital costs for the Water System;* and

(f) grants for maintenance and operations received from the United States of America or from the State of California; provided, however, that System Revenues shall not include: (1) in all cases, customers' deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; and (2) the proceeds of borrowings; but

(g) notwithstanding the foregoing, there shall be deducted from System Revenues any amounts transferred into a Rate Stabilization Fund as contemplated by

* These items of System Revenue may not be used to pay Maintenance and Operation Costs of the Water System.

Section 6.08(b) hereof, and any amounts transferred from current System Revenues to the Secondary Purchase Fund as contemplated by Section 6.08(c) hereof, and there shall be added to System Revenues any amounts transferred out of such Rate Stabilization Fund or the Secondary Purchase Fund to pay Maintenance and Operation Costs of the Water System.

Tax Certificate

The term "Tax Certificate" shall mean any certificate delivered with respect to the maintenance of the tax-exempt status of Tax-Exempt Installment Payment Obligations.

Tax-Exempt Installment Payment Obligations

The term "Tax-Exempt Installment Payment Obligations" means Installment Payment Obligations, the interest component of which is excluded from gross income pursuant to Section 103 of the Code.

Tender Indebtedness

The term "Tender Indebtedness" means any Obligations or portions of Obligations, a feature of which is an option, on the part of the holders thereof, or an obligation, under the terms of such Obligations, to tender all or a portion of such Obligations to the City, a Trustee or other fiduciary or agent for payment or purchase and requiring that such Obligations or portions of Obligations or that such rights to payments or portions of payments be purchased if properly presented. Tender Indebtedness may consist of either Parity Obligations or Subordinated Obligations.

Term Parity Obligations

The term "Term Parity Obligations" means Term Obligations which are Parity Installment Obligations or are payable on a parity with Parity Installment Obligations.

Term Obligations

The term "Term Obligations" means Obligations which are payable on or before their specified maturity dates from sinking fund payments established for that purpose and calculated to retire such Obligations on or before their specified maturity dates.

Trustee

The term "Trustee" means a financial institution acting in its capacity as Trustee under and pursuant to any Issuing Instrument, or its successors and assigns.

Variable Rate Indebtedness

The term "Variable Rate Indebtedness" means any portion of indebtedness evidenced by Obligations, the interest rate for which is subject to adjustment periodically through a remarketing process or according to a stated published index for similar obligations in the

municipal markets. Variable Rate Indebtedness may consist of either Parity Obligations or Subordinated Obligations.

Water Service

The term "Water Service" means the collection, conservation, production, storage, treatment, transmission, furnishing and distribution services made available or provided by the Water System.

Water System

The term "Water System" means any and all facilities, properties, improvements and works at any time owned, controlled or operated by the City as part of the public utility system of the City for water purposes, for the development, obtaining, conservation, production, storage, treatment, transmission, furnishing and distribution of water and its other commodities or byproducts for public and private use (whether located within or without the City), and any related or incidental operations designated by the City as part of the Water System, including reclaimed and re-purified water.

Water Utility Fund

The term "Water Utility Fund" means the fund by that name established under the Charter.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

SECTION 2.01. Representations by the City. The City makes the following representations:

(a) The City is a municipal corporation organized and existing under the Charter, which was duly adopted pursuant to the provisions of the Constitution of the State of California.

(b) The City has full legal right, power and authority to enter into this Installment Purchase Agreement and carry out its obligations hereunder, to carry out and consummate all transactions contemplated by this Installment Purchase Agreement, and the City has complied with the provisions of the Law in all matters relating to such transactions.

(c) By proper action, the City has duly authorized the execution, delivery and due performance of this Installment Purchase Agreement.

(d) The execution and delivery of this Installment Purchase Agreement and the consummation of the transactions herein contemplated will not violate any provision of law, any order of any court or other agency of governments or any indenture, material agreement or other instrument to which the City is now a party or by which it or any of its properties or assets is bound, or be in conflict with, result in a breach of or constitute a default (with due notice or the

passage of time or both) under any such indenture, agreement or other instrument, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the properties or assets of the City.

(e) The City has determined that it is necessary and proper for the City uses and purposes within the terms of the Law that the City acquire the Project in the manner provided for in this Installment Purchase Agreement, in order to provide essential services and facilities to the persons residing in the City.

(f) The City will comply with the provisions of the Tax Certificate so that the interest components of Tax-Exempt Installment Payment Obligations will not be includable in the gross income of the Owners of such Obligations for federal income tax purposes.

SECTION 2.02. Representations and Warranties by the Corporation. The Corporation makes the following representations and warranties:

(a) The Corporation is duly organized and existing under the laws of the State of California.

(b) The Corporation has full legal right, power and authority to enter into this Installment Purchase Agreement and to carry out and consummate all transactions contemplated by this Installment Purchase Agreement.

(c) By proper action, the Corporation has duly authorized the execution, delivery and due performance of this Installment Purchase Agreement.

(d) The execution and delivery of this Installment Purchase Agreement and the consummation of the transactions herein contemplated will not violate any provision of law, any order of any court or other agency of government, or any indenture, material agreement or other instrument to which the Corporation is now a party or by which it or any of its properties or assets is bound, or be in conflict with, result in a breach of or constitute a default (with due notice or the passage of time or both) under any such indenture, agreement or other instrument, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the properties or assets of the Corporation.

ARTICLE III

ACQUISITION AND CONSTRUCTION OF THE PROJECT

SECTION 3.01. Acquisition and Construction of the Project; Components. (a) The Corporation hereby agrees to cause the Project to be constructed, acquired and installed by the City, as agent of the Corporation. The City shall enter into contracts and provide for, as agent of the Corporation, the complete construction, acquisition and installation of the Project. The City hereby agrees that it will cause the construction, acquisition and installation of the Project to be diligently performed.

(b) It is hereby expressly understood and agreed that, except to the extent of proceeds of Obligations which are deposited in an Acquisition Fund, the Corporation shall be

under no liability of any kind or character whatsoever for the payment of any cost of any Components. In the event the proceeds of Obligations deposited in an Acquisition Fund are insufficient to complete the construction, acquisition and installation of the designated Components, the City shall cause to be deposited in such Acquisition Fund (or shall otherwise appropriate and encumber) from and to the extent of available amounts on deposit in the Water Utility Fund (or other lawfully available moneys) an amount equal to that necessary to complete the construction, acquisition and installation of such Components.

(c) The Corporation will not undertake to cause any Component of the Project to be constructed, acquired or installed unless and until the City and the Corporation have entered into a Supplement specifying the Components of the Project to be installed, the date of completion, the purchase price to be paid by the City hereunder for that Component of the Project, and the Installment Payments or the method of calculating Installment Payments.

SECTION 3.02. Changes to the Project. (a) From time to time and at any time, subject to the restrictions set forth in subsection (b) below, the City may modify or amend the description of the Project, to eliminate any part thereof and/or to add or substitute another Component or Components, all without obtaining any consent, by filing an amended Exhibit A with the Corporation and the Trustee under the related Issuing Instrument; provided however, that no such amendment shall add or substitute a Component or Components which are not to be accounted for as an asset of the Water Utility Fund or shall in any way impair the obligations of the City contained in any Supplement executed and delivered prior to any such amendment.

(b) The City may substitute other improvements for those listed as Components in any Supplement, but only if the City first files with the Corporation and the Trustee a certificate of an Authorized City Representative:

(1) identifying the Components to be substituted and the Components they replace;

(2) stating that the substituted Components will be accounted for as an asset of the Water Utility Fund; and

(3) stating that with respect to Components financed with Tax-Exempt Installment Payment Obligations, the estimated costs of construction, acquisition and installation of the substituted improvements are not less than such costs for the improvements previously included in such Supplement, that any excess amounts will be applied to the payment of principal evidenced by the related Obligations or any Additional Obligations, and that said substitution will not violate any provision of the related Tax Certificate.

(c) Substituted Components may include or consist of an undivided interest in such Components, in which event the costs associated with the substituted Components over and above the undivided interest need not be deposited in the Acquisition Fund (or otherwise appropriated and encumbered); provided, however, that the certificate of an Authorized City Representative specifies that the funds necessary to complete the substituted Components are on deposit in the Acquisition Fund or otherwise appropriated and encumbered.

ARTICLE IV

INSTALLMENT PAYMENTS

SECTION 4.01. Purchase Price. (a) The City will pay the Purchase Price for any Components being purchased as provided in a Supplement. The Purchase Price to be paid by the City to the Corporation pursuant to any Supplement hereto, solely from Net System Revenues and from no other sources, is the sum of the principal amount of the City's obligations under such Supplement plus the interest to accrue on the unpaid balance of such principal amount from the effective date thereof over the term thereof, subject to prepayment as provided therein.

(b) The principal amount of the Installment Payments to be made by the City under a Supplement shall be paid at least three Business Days prior to the date such Installment Payments are payable as specified in such Supplement or at such other earlier time or times and in the manner or manners as specified in such Supplement. In the event the principal amount of an Installment Payment is not paid by the date the same is due and payable as specified in such Supplement, the same shall bear interest at the Default Rate, commencing on the day the same as due, to, but not including, the payment date.

(c) The interest to accrue on the unpaid balance of such principal amount shall be paid at least three Business Days prior to the date such interest is payable as specified in a Supplement or at such other earlier time or times as specified in such Supplement, and shall be paid by the City as and constitute interest paid on the principal amount of the City's obligations thereunder. Interest shall be payable in an amount not exceeding the Maximum Rate at the time of incurring such obligation, at such intervals and according to such interest rate formulas as shall be specified in a Supplement or by reference to any Issuing Instrument to which such Supplement relates, and shall be payable with such frequency as shall be specified therein. In the event that interest is not paid by the date such interest is payable, to the extent permitted by applicable law, such interest shall thereafter bear interest at the Default Rate, commencing on the day the same is due, to, but not including, the payment date.

SECTION 4.02. Installment Payments; Reserve Fund Payments. (a) The City shall, subject to any rights of prepayment provided for in a Supplement, pay to the Corporation, solely from Net System Revenues and from no other sources, the Purchase Price in Installment Payments over a period not to exceed the maximum period permitted by law, all as specified in a Supplement.

(b) In the event that a Trustee notifies the City that the amount on deposit in a Reserve Fund or Reserve Account is less than the Reserve Requirement, the City shall deposit or cause to be deposited, solely from Net System Revenues in accordance with Section 5.02(b) hereof, in such Reserve Fund or Reserve Account such amounts on a monthly basis as are necessary to increase the amount on deposit therein to the Reserve Requirement in the ensuing twelve months.

(c) The obligation of the City to make the Installment Payments solely from Net System Revenues is absolute and unconditional, and until such time as the Purchase Price shall have been paid in full (or provision for the payment thereof shall have been made pursuant

to Article IX hereof), the City will not discontinue or suspend any Installment Payments required to be made by it under this section when due, whether or not the Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such Installment Payments shall not be subject to reduction whether by offset or otherwise and shall not be conditioned upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

ARTICLE V

SYSTEM REVENUES

SECTION 5.01. Commitment of the Net System Revenues. (a) All Parity Obligations, including Parity Installment Payment Obligations, shall be secured by a first priority lien on and pledge of Net System Revenues. The City does hereby grant such first priority lien on and pledge of Net System Revenues to secure Parity Obligations. All Parity Obligations shall be of equal rank with each other without preference, priority or distinction of any Parity Obligations over any other Parity Obligations.

(b) All Subordinated Obligations shall be secured by a second priority lien on and pledge of Net System Revenues that is junior and subordinate to the lien on and pledge of Net System Revenues securing Parity Obligations. The City does hereby grant such second priority lien on and pledge of Net System Revenues to secure Subordinated Obligations. All Subordinated Obligations shall be of equal rank with each other without preference, priority or distinction of any Subordinated Obligations over any other Subordinated Obligations.

(c) The City hereby represents and states that it has not granted any lien or charge on any of the Net System Revenues except as provided herein; provided, however, that out of Net System Revenues there may be apportioned such sums for such purposes as are expressly permitted by this Article V.

(d) Nothing contained herein shall limit the ability of the City to grant liens on and pledges of the Net System Revenues that are subordinate to the liens on and pledges of Net System Revenues for the benefit of Parity Obligations and Subordinated Obligations contained herein.

SECTION 5.02. Allocation of System Revenues. (a) In order to carry out and effectuate the commitment and pledge contained in Section 5.01, the City agrees and covenants that all System Revenues shall be received by the City in trust and shall be deposited when and as received in the Water Utility Fund, which fund the City agrees and covenants to maintain so long as any Installment Payment Obligations remain unpaid, and all moneys in the Water Utility Fund shall be so held in trust and applied and used solely as provided herein. The City shall pay from the Water Utility Fund: (1) directly or as otherwise required all Maintenance and Operation Costs of the Water System; and (2) to the Trustee, for deposit in the Payment Fund for Parity Obligations, including Reserve Fund Obligations that are Parity Obligations, the amounts specified in any Issuing Instrument, as payments due on account of Parity Obligations (including any Credit Provider Reimbursement Obligations that are Parity Obligations). In the event there are insufficient Net System Revenues to make all of the payments contemplated by clause (2) of

the immediately preceding sentence, then said payments should be made as nearly as practicable, *pro rata*, based upon the respective unpaid principal amounts of said Parity Obligations.

(b) After the payments contemplated by subsection (a) above have been made, and in any event not less frequently than January 15 and July 15 of each year, any remaining Net System Revenues shall be used to make up any deficiency in the Reserve Funds for Parity Obligations. Notwithstanding the use of a Reserve Fund Credit Facility in lieu of depositing funds in the related Reserve Fund for Parity Obligations, in the event of any draw on the related Reserve Fund Credit Facility, there shall be deemed a deficiency in such Reserve Fund for Parity Obligations until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount. In the event there are insufficient Net System Revenues to make up all deficiencies in all Reserve Funds for Parity Obligations, such payments into the Reserve Funds shall be made as nearly as practicable *pro rata* based on the respective unpaid principal amount of all Parity Obligations. Any amounts thereafter remaining in the Water Utility Fund may from time to time be used to pay the amounts specified in any Issuing Instrument as payments due on account of Subordinated Obligations (including any Reserve Fund Obligations for Subordinated Obligations, any Credit Provider Reimbursement Obligations that are Subordinated Obligations and any Subordinated Credit Provider Reimbursement Obligations), provided the following conditions are met:

(1) all Maintenance and Operation Costs of the Water System are being and have been paid and are then current; and

(2) all deposits and payments contemplated by clause (2) of subsection (a) above shall have been made in full and no deficiency in any Reserve Fund for Parity Obligations shall exist, and there shall have been paid, or segregated within the Water Utility Fund, the amounts payable during the current month pursuant to clause (2) of subsection (a) above.

After deposits contemplated by this Section have been made, any amounts thereafter remaining in the Water Utility Fund may be used for any lawful purpose of the Water System.

SECTION 5.03. Additional Obligations. (a) The City may not create any Obligations, the payments of which are senior or prior in right to the payment by the City of Parity Obligations.

(b) Without regard to subsection (c) below, the City may at any time enter into or create an obligation or commitment which is a Reserve Fund Obligation, provided that the Obligation to which the Reserve Fund Obligation relates is permitted to be entered into under the terms of this Section.

(c) After the initial issuance of Parity Obligations hereunder, the City may at any time and from time to time issue or create any other Parity Obligations, provided that:

(1) there shall not have occurred and be continuing an Event of Default under the terms of this Installment Purchase Agreement, any Issuing Instrument or any Credit Support Instrument; and

(2) the City obtains or provides a certificate or certificates, prepared by the City or at the City's option by a Consultant, showing that:

(A) the Net System Revenues as shown by the books of the City for any 12-consecutive-month period within the 18 consecutive months ending immediately prior to the incurring of such additional Parity Obligations shall have amounted to or exceeded the greater of (i) at least 1.20 times the Maximum Annual Debt Service on all Parity Obligations to be Outstanding immediately after the issuance of the proposed Parity Obligations or (ii) at least 1.00 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed Parity Obligations. For purposes of preparing the certificate or certificates described above, the City or its Consultant may rely upon audited financial statements, or, if audited financial statements for the period are not available, financial statements prepared by the City that have not been subject to audit by an Independent Certified Public Accountant; or

(B) the estimated Net System Revenues for the five Fiscal Years following the earlier of (i) the end of the period during which interest on those Parity Obligations is to be capitalized or, if no interest is to be capitalized, the Fiscal Year in which the Parity Obligations are issued, or (ii) the date on which substantially all new Components to be financed with such Parity Obligations are expected to commence operations, will be at least equal to 1.20 times the Maximum Annual Debt Service for all Parity Obligations which will be Outstanding immediately after the issuance of the proposed Parity Obligations.

(d) For purposes of the computations to be made as described in subsection (c)(2)(B) above, the determination of Net System Revenues:

(1) may take into account any increases in rates and charges which relate to the Water System and which have been approved by the City Council, and shall take into account any reduction in such rates and charges which have been approved by the City Council, which will, for purposes of the test described in subsection (c)(2)(B) above, be effective during a Fiscal Year ending within the five-Fiscal Year period for which such estimate is being made; and

(2) may take into account an allowance for any estimated increase in such Net System Revenues from any revenue-producing additions or improvements to or extensions of the Water System to be made with the proceeds of such additional indebtedness or with the proceeds of Parity Obligations previously issued, all in an amount equal to the estimated additional average annual Net System Revenues to be derived from such additions, improvements and extensions during the five-Fiscal Year period contemplated by subsection (c)(2)(B) above, all as shown by such certificate of the City or its Consultant, as applicable; and

(3) for the period contemplated by subsection (c)(2)(B), Maintenance and Operation Costs of the Water System shall initially be deemed to be equal to such

costs for the 12 consecutive months immediately prior to incurring such other Parity Obligations for the first Fiscal Year of the five-Fiscal Year period, but adjusted if deemed necessary by the City or its Consultant, as applicable, for any increased Maintenance and Operations Costs of the Water System which are, in the judgment of the City or such Consultant, as applicable, essential to maintaining and operating the Water System and which will occur during any Fiscal Year ending within the period contemplated by subsection (c)(2)(B) above.

(e) The certificate or certificates described above in subsection (c)(2)(B) shall not be required if the Parity Obligations being issued are for the purpose of (1) issuing the Parity Obligations initially issued under this Installment Purchase Agreement or (2) refunding (A) any then Outstanding Parity Obligations if at the time of the issuance of such Parity Obligations a certificate of an Authorized City Representative shall be delivered showing that the sum of Adjusted Debt Service on all Parity Obligations Outstanding for all remaining Fiscal Years after the issuance of the refunding Parity Obligations will not exceed the sum of Adjusted Debt Service on all Parity Obligations Outstanding for all remaining Fiscal Years prior to the issuance of such refunding Parity Obligations; or (B) then Outstanding Balloon Indebtedness, Tender Indebtedness or Variable Rate Indebtedness, but only to the extent that the principal amount of such indebtedness has been put, tendered to or otherwise purchased pursuant to a standby purchase or other liquidity facility relating to such indebtedness.

(f) Without regard to subsection (c) above, if (i) no Event of Default has occurred and is continuing and (ii) no event of default or termination event attributable to an act of or failure to act by the City under any Credit Support Instrument has occurred and is continuing, the City may issue or incur Subordinated Obligations, and such Subordinated Obligations shall be paid in accordance with the provisions of Section 5.02(b) hereof, provided that:

(1) City obtains or provides a certificate or certificates, prepared by the City or at the City's option by a Consultant, showing that:

(A) the Net System Revenues as shown by the books of the City for any 12-consecutive-month period within the 18 consecutive months ending immediately prior to the incurring of such additional Subordinated Obligations shall have amounted to at least 1.00 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed Subordinated Obligations; or

(B) the estimated Net System Revenues for the five Fiscal Years following the earlier of (i) the end of the period during which interest on those Subordinated Obligations is to be capitalized or, if no interest is to be capitalized, the Fiscal Year in which the Subordinated Obligations are issued; or (ii) the date on which substantially all new facilities financed with such Subordinated Obligations are expected to commence operations, will be at least equal to 1.00 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed Subordinated Obligations.

(2) For purposes of preparing the certificate or certificates described in clause (A) of subsection (f)(1) above, the City and its Consultant(s) may rely upon audited financial statements or, if audited financial statements for the period are not available, financial statements prepared by the City that have not been subject to audit by an Independent Certified Public Accountant.

(3) For purposes of the computations to be made as described in clause (B) of subsection (f)(1) above, the determination of Net System Revenues:

(A) may take into account any increases in rates and charges which relate to the Water System and which have been approved by the City Council and shall take into account any reduction in such rates and charges which have been approved by the City Council, which will, for purposes of the test described in clause (B) of subsection (f)(1) above, be effective during any Fiscal Year ending within the five-Fiscal Year period for which such estimate is made; and

(B) may take into account an allowance for any estimated increase in such Net System Revenues from any revenue-producing additions or improvements to or extensions of the Water System to be made with the proceeds of such additional indebtedness, with the proceeds of Obligations previously issued or with cash contributions made or to be made by the City, all in an amount equal to the estimated additional average annual Net System Revenues to be derived from such additions, improvements and extensions during the five-Fiscal Year period contemplated by clause (B) of subsection (f)(1) above, all as shown by such certificate of the City or its Consultant, as applicable; and

(C) for the period contemplated by clause (B) of subsection (f)(1) above, shall initially include Maintenance and Operation Costs of the Water System in an amount equal to such costs for any 12-consecutive month period within the 24 consecutive months ending immediately prior to incurring such Subordinated Obligations for the first Fiscal Year of the five-Fiscal Year period, but adjusted if deemed necessary by the City or its Consultant, as applicable, for any increased Maintenance and Operations Costs of the Water System which are, in the judgment of the City or its Consultant, as applicable, essential to maintaining and operating the Water System and which will occur during any Fiscal Year ending within the period contemplated by clause (B) of subsection (f)(1) above.

(4) The certificate or certificates described above in subsection (f)(1) above shall not be required if the Subordinated Obligations being issued are for the purpose of refunding (i) then-Outstanding Parity Obligations or Subordinated Obligations if at the time of the issuance of such Subordinated Obligations a certificate of an Authorized City Representative shall be delivered showing that the sum of Debt Service for all remaining Fiscal Years on all Parity Obligations and Subordinated Obligations Outstanding after the issuance of the refunding Subordinated Obligations will not exceed the sum of Debt Service for all remaining Fiscal Years on all Parity Obligations and

Subordinated Obligations Outstanding prior to the issuance of such refunding Subordinated Obligations; or (ii) then-Outstanding Balloon Indebtedness, Tender Indebtedness or Variable Rate Indebtedness, but only to the extent that the principal amount of such indebtedness has been put, tendered to or otherwise purchased by a standby purchase agreement or other liquidity facility relating to such indebtedness.

ARTICLE VI

COVENANTS OF THE CITY

SECTION 6.01. Compliance With Installment Purchase Agreement and Ancillary Agreements. (a) The City will punctually pay Parity Obligations in strict conformity with the terms hereof and thereof; and will faithfully observe and perform all the agreements, conditions, covenants and terms contained herein required to be observed and performed by it, and will not terminate this Installment Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Corporation to observe or perform any agreement, condition, covenant or term contained herein required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected herewith or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Corporation or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

(b) The City will faithfully observe and perform all the agreements, conditions, covenants and terms contained in this Installment Purchase Agreement, including Supplements, and any Issuing Instrument or Credit Support Instrument relating to Parity Obligations required to be observed and performed by it, and it is expressly understood and agreed by and between the parties to this Installment Purchase Agreement that, subject to Section 10.07 hereof, each of the agreements, conditions, covenants and terms contained herein and therein is an essential and material term of the purchase of and payment for each Component by the City pursuant to, and in accordance with, and as authorized under the Law.

(c) The City will faithfully observe and perform all of the agreements and covenants of the City contained in each Authorizing Ordinance and will not permit the same to be amended or modified so as to adversely affect the Owners of Installment Payment Obligations.

(d) The City shall be unconditionally and irrevocably obligated, so long as any Installment Payment Obligations remain Outstanding and unpaid, to take all lawful action necessary or required to continue to entitle the City to collect and deposit such System Revenues in the Water Utility Fund for use as provided in this Installment Purchase Agreement; provided, however, that such obligation does not, in any way, limit the City's ability to undertake any and

all legal actions, including any appeals, in the defense of a federal court order dictating a water system configuration other than that approved and adopted by the City.

SECTION 6.02. Against Encumbrances. The City will not make any pledge of or place any lien on the Net System Revenues except as otherwise provided or permitted herein.

SECTION 6.03. Debt Service Reserve Fund. The City will maintain or cause to be maintained each Reserve Fund at the applicable Reserve Requirement. In the event the amount in any such fund or account falls below the applicable Reserve Requirement, the City will replenish such fund or account up to the applicable Reserve Requirement pursuant to Section 5.02 hereof.

SECTION 6.04. Against Sale or Other Disposition of Property. (a) The City will not sell, lease or otherwise dispose of the Water System or any part thereof essential to the proper operation of the Water System or to the maintenance of the System Revenues, except as provided in Sections 6.04(b) and Section 6.19 hereof. Further, the City will not, except as otherwise provided herein, enter into any agreement or lease which impairs the operation of the Water System or any part thereof necessary to secure adequate Net System Revenues for the payment of the Parity Obligations or which would otherwise impair the rights of the Corporation with respect to the System Revenues or the operation of the Water System.

(b) The City may dispose of any of the works, plant properties, facilities or other parts of the Water System, or any real or personal property comprising a part of the Water System, only upon the approval of the City Council and consistent with one or more of the following:

(1) the City in its discretion may carry out such a disposition if the facilities or property being disposed of are not material to the operation of the Water System, or shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the Water System or are no longer necessary, material or useful to the operation of the Water System, and if such disposition will not materially reduce the Net System Revenues and if the proceeds of such disposition are deposited in the Water Utility Fund;

(2) the City in its discretion may carry out such a disposition if the City receives from the acquiring party an amount equal to the fair market value of the portion of the Water System disposed of. As used in this clause (2), "fair market value" means the most probable price that the portion being disposed of should bring in a competitive and open market under all conditions requisite to a fair sale, the willing buyer and willing seller each acting prudently and knowledgeably, and assuming that the price is not affected by coercion or undue stimulus. The proceeds of the disposition shall be used (A) *first*, promptly to redeem, or irrevocably set aside for the redemption of, Parity Obligations, and *second*, promptly to redeem, or irrevocably set aside for the redemption of, Subordinated Obligations, and/or (B) to provide for a part of the cost of additions to and betterments and extensions of the Water System; provided, however, that before any such disposition under this clause (2), the City must obtain (i) a certificate of an Independent Engineer to the effect that upon such disposition and the use of the

proceeds of the disposition as proposed by the City, the remaining portion of the Water System will retain its operational integrity and the estimated Net System Revenues for the five Fiscal Years following the Fiscal Year in which the disposition is to occur will be equal to or exceed the greater of (i) at least 1.20 times the Adjusted Debt Service on all Outstanding Parity Obligations during the five Fiscal Years following the Fiscal Year in which the disposition is to occur, or (ii) at least 1.00 times the Adjusted Debt Service on all Outstanding Obligations during the first five Fiscal Years following the Fiscal Year in which the disposition is to occur, taking into account (aa) the reduction in revenue resulting from the disposition, (bb) the use of any proceeds of the disposition for the redemption of Parity Obligations and/or Subordinated Obligations, (cc) the Independent Engineer's estimate of revenue from customers anticipated to be served by any additions to and betterments and extensions of the Water System financed in part by the proceeds of the disposition, and (dd) any other adjustment permitted in the preparation of a certificate under Section 5.03(c)(2)(B) of this Installment Purchase Agreement, and (ii) confirmation from the Rating Agencies to the effect that the rating then in effect on any Outstanding Parity Obligations will not be reduced or withdrawn upon such disposition.

(c) The City will operate the Water System in an efficient and economic manner, *provided* that the City may remove from service on a temporary or permanent basis such part or parts of the Water System as the City shall determine, so long as (1) Net System Revenues are at least equal to the greater of (i) 100% of all Obligations payable in the then-current Fiscal Year or (ii) 120% of Adjusted Debt Service for the then-current Fiscal Year, after giving effect to any defeasance of Parity Obligations and/or Subordinated Obligations occurring incident to such removal, and for each Fiscal Year thereafter to and including the Fiscal Year during which the last Installment Payment is due, after giving effect to such defeasance, as evidenced by (i) an Engineer's Report on file with the City, or (ii) a Certificate of the City, (2) the value of the parts of the Water System to be so removed is less than 5% of the total Water System Plant assets, each as shown on the most recent audited financial statements that include the Water Utility Fund, and (3) the City shall have filed with each Trustee an opinion of Bond Counsel to the effect that the removal of such part or parts of the Water System will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on Tax-Exempt Installment Payment Obligations.

SECTION 6.05. Covenant Regarding State Orders. The City covenants and agrees that it shall comply in all material respects with the provisions of the existing compliance orders of the State of California Department of Public Health applicable to the Water System initially issued in January 1997 and most recently amended on May 11, 2007, through and including Amendment 11.

SECTION 6.06. Prompt Acquisition and Construction. The City shall take all necessary and appropriate steps to construct, acquire and install the Project, as agent of the Corporation, with all practicable dispatch and in an expeditious manner and in conformity with law so as to complete the same as soon as possible.

SECTION 6.07. Maintenance and Operation of the Water System; Budgets. The City shall maintain and preserve the Water System in good repair and working order at all times

and shall operate the Water System in an efficient and economical manner and will pay all Maintenance and Operation Costs of the Water System as they become due and payable. The City shall adopt and make available to the Corporation, on or before the effective date hereof, a budget approved by the City Council of the City setting forth the estimated Maintenance and Operation Costs of the Water System for the period from such date until the close of the then-current Fiscal Year. On or before August 1 of each Fiscal Year, the City shall adopt, and on or before the day that is 120 days after the beginning of the Fiscal Year, make available to the Corporation a budget approved by the City Council of the City setting forth the estimated Maintenance and Operation Costs of the Water System for such Fiscal Year. Any budget may be amended at any time during any Fiscal Year and such amended budget shall be filed by the City with the Corporation.

SECTION 6.08. Amount of Rates and Charges; Rate Stabilization Fund; Other Funds.

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

(b) The City may establish, as a fund within the Water Utility Fund, a fund denominated the "Rate Stabilization Fund." From time to time, the City may deposit into the Rate Stabilization Fund, from current System Revenues, such amounts as the City shall determine and the amount of available current System Revenues shall be reduced by the amount so transferred. Amounts may be transferred from the Rate Stabilization Fund solely and exclusively to pay Maintenance and Operation Costs of the Water System, and any amounts so transferred shall be deemed System Revenues when so transferred. All interest or other earnings upon amounts in the Rate Stabilization Fund may be withdrawn therefrom and accounted for as System Revenues.

(c) The City may establish, as a fund within the Water Utility Fund, a fund denominated the "Secondary Purchase Fund." From time to time, the City may deposit in the Secondary Purchase Fund, from any lawful source, which may or may not consist of current System Revenues, such amounts as the City shall determine, and the amount of available System Revenues shall be reduced by the amount so transferred, but only to the extent that amounts so transferred consist of then-current System Revenues. Amounts may be transferred from the Secondary Purchase Fund solely and exclusively to pay Maintenance and Operation Costs of the Water System, and any amounts so transferred shall be deemed System Revenues when so transferred. All interest or other earnings upon amounts in the Secondary Purchase Fund may be withdrawn therefrom and accounted for as System Revenues.

SECTION 6.09. Payment of Claims. The City will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the

System Revenues or any part thereof or on any funds in the hands of the City or the Trustee might impair the security of the Installment Payments, but the City shall not be required to pay such claims if the validity thereof shall be contested in good faith.

SECTION 6.10. Compliance with Contracts. The City will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the Water System and all other contracts affecting or involving the Water System to the extent that the City is a party thereto.

SECTION 6.11. Insurance. (a) The City will procure and maintain or cause to be procured and maintained insurance on the Water System with responsible insurers, in such amounts and against such risks (including accident to or destruction of the Water System) as are usually covered in connection with water systems similar to the Water System, or it will self-insure or participate in an insurance pool or pools with reserves adequate, in the reasonable judgment of the City, to protect the Water System against loss. In the event of any damage to or destruction of the Water System caused by the perils covered by such insurance or self insurance, the Net Proceeds thereof shall be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Water System. The City shall begin such reconstruction, repair or replacement promptly after such damage or destruction shall occur, and shall continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and shall pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the Water System shall be free and clear of all claims and liens unless the City determines that such property or facility is not necessary to the efficient or proper operation of the Water System and therefore determines not to reconstruct, repair or replace such project or facility. If such Net Proceeds exceed the costs of such reconstruction, repair or replacement, then the excess Net Proceeds shall be deposited in the Water Utility Fund and be available for other proper uses of funds deposited in the Water Utility Fund.

(b) The City will procure and maintain such other insurance which it shall deem advisable or necessary to protect its interests and the interests of the Corporation, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with water systems similar to the Water System; provided that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and in the manner usually maintained in connection with water systems similar to the Water System.

(c) All policies of insurance required to be maintained herein shall, to extent reasonably obtainable, provide that the Corporation and each Trustee shall be given 30 days' written notice of any intended cancellation thereof or reduction of coverage provided thereby. The City shall certify to the Corporation and each Trustee annually on or before August 31 that it is in compliance with the insurance requirements hereunder.

SECTION 6.12. Accounting Records; Financial Statements and Other Reports. (a) The City will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Water System, which records shall be available for

inspection by the Corporation and the Trustee at reasonable hours and under reasonable conditions.

(b) The City will prepare and file with the Corporation annually (commencing with the Fiscal Year ending June 30, 1998), within 270 days of the close of each Fiscal Year, financial statements that include the Water Utility Fund for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report thereon.

(c) The City will furnish a copy of the financial statements referred to in subsection (b) above to any Owner of the Certificates requesting a copy thereof, which may be in electronic form.

SECTION 6.13. Protection of Security and Rights of the Corporation. The City will preserve and protect the security hereof and the rights of the Corporation to the Installment Payments hereunder and will warrant and defend such rights against all claims and demands of all persons.

SECTION 6.14. Payment of Taxes and Compliance with Governmental Regulations. The City shall pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Water System or any part thereof or upon the System Revenues when the same shall become due, except that the City may contest in good faith any taxes, assessments and other governmental charges so long as the City shall have budgeted for the amount being contested and, if appropriate, such amount shall have been included as Maintenance and Operation Costs of the Water System. The City shall duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Water System or any part thereof, but the City shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested by the City in good faith.

SECTION 6.15. Collection of Rates and Charges; No Free Service. The City shall have in effect at all times rules and regulations for the payment of bills for Water Service. Such regulations may provide that where the City furnishes water to the property receiving Water Service, the Water Service charges shall be collected together with the water rates upon the same bill providing for a due date and a delinquency date for each bill. In each case where such bill remains unpaid in whole or in part after it becomes delinquent, the City may disconnect such premises from the Water System, and such premises shall not thereafter be reconnected to the Water System except in accordance with City operating rules and regulations governing such situations of delinquency. To the extent permitted by law, the City shall not permit any part of the Water System or any facility thereof to be used or taken advantage of free of charge by any authority, firm or person, or by any public agency (including the United States of America, the State of California and any city, county, district, political subdivision, public authority or agency thereof).

SECTION 6.16. Eminent Domain Proceeds. If all or any part of the Water System shall be taken by eminent domain proceedings, then subject to the provisions of any Authorizing Ordinance, the Net Proceeds thereof shall be applied to the replacement of the property or

facilities so taken, unless the City determines that such property or facility is not necessary to the efficient or proper operation of the Water System and therefore determines not to replace such property or facilities. Any Net Proceeds of such award not applied to replacement or remaining after such work has been completed shall be deposited in the Water Utility Fund and be available for other proper uses of funds deposited in the Water Utility Fund.

SECTION 6.17. Tax Covenants. There shall be included in each Supplement relating to Tax-Exempt Installment Payment Obligations such covenants as are deemed necessary or appropriate by Bond Counsel for the purpose of assuring that interest on such Installment Payment Obligations shall be excluded from gross income under section 103 of the Code.

SECTION 6.18. Further Assurances. The City shall adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance hereof and for the better assuring and confirming unto the Corporation of the rights and benefits provided to it herein.

SECTION 6.19. Subcontracting. Nothing herein to the contrary shall prevent the City from delegating the power to be an operator of some or all of the Water System, even though the City continues to retain ownership of the Water System and its operations, and no such subcontracting arrangement shall relieve the City of any of its obligations hereunder. Prior to the effective date of any such delegation, the City shall deliver to the Trustee an opinion of Bond Counsel to the effect that the proposed delegation will not have an adverse effect on the exclusion from gross income for federal income tax purposes of the interest component of Tax-Exempt Installment Payment Obligations.

SECTION 6.20. Additional Covenants. The City may provide additional covenants pursuant to any Supplement, including covenants relating to any Credit Support obtained for Installment Payment Obligations; provided, however, that such additional covenants do not materially and adversely affect the right of Owners of Outstanding Obligations issued prior to the effective date of any such Supplement.

ARTICLE VII

PREPAYMENT OF INSTALLMENT PAYMENTS

SECTION 7.01. Prepayment of Installment Payments. Provisions may be made in any Supplement for the prepayment of Installment Payments, in whole or in part, in such multiples and in such order of maturity and from funds of any source, and with such prepayment premiums and other terms as are specified in the Supplement. Said Supplement shall also provide for any notices to be given relating to such prepayment.

ARTICLE VIII
EVENTS OF DEFAULT AND REMEDIES OF THE CORPORATION

SECTION 8.01. Events of Default and Acceleration of Maturities. If one or more of the following Events of Default shall happen, that is to say:

(a) if default shall be made in the due and punctual payment of or on account of any Parity Obligation as the same shall become due and payable;

(b) if default shall be made by the City in the performance of any of the agreements or covenants required herein to be performed by it (other than as specified in subsection (a) above), and such default shall have continued for a period of 60 days after the City shall have been given notice in writing of such default by the Corporation or any Trustee;

(c) if any Event of Default specified in any Supplement, Authorizing Ordinance or Issuing Instrument shall have occurred and be continuing; or

(d) if the City shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with the consent of the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property;

then, and in each and every such case during the continuance of such Event of Default, the Corporation shall upon the written request of the Owners of 25% or more of the aggregate principal amount of all Series of Parity Installment Obligations Outstanding, voting collectively as a single class, by notice in writing to the City, declare the entire unpaid principal amount thereof and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained herein to the contrary notwithstanding; provided, that with respect to a Series of Parity Installment Obligations which is credit enhanced by a Credit Support Instrument, acceleration shall not be effective unless the declaration is consented to by the related Credit Provider. The foregoing provisions, however, are subject to the condition that if at any time after the entire principal amount of all Parity Installment Obligations and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the City shall deposit with the Corporation a sum sufficient to pay the unpaid principal amount of all such Parity Installment Obligations and the unpaid payments of any other Parity Obligations referred to in clause (a) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments at the rate or rates applicable thereto in accordance with their terms, and the reasonable expenses of the Corporation, and any and all other defaults known to the Corporation (other than in the payment of the entire principal amount of the unpaid Parity Installment Obligations and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Corporation or provision deemed by the Corporation to be

adequate shall have been made therefor, then and in every such case the Corporation, by written notice to the City, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Subject to this Section, the Owners of Subordinated Obligations may enforce the provisions of this Installment Purchase Agreement for their benefit by appropriate legal proceedings. The payment of Subordinated Obligations will be subordinated in right of payment to payment of the Parity Obligations (except for any payment in respect of Subordinated Obligations from the Reserve Fund securing such Subordinated Obligations). Upon the occurrence and during the continuance of any Event of Default, Owners of Parity Obligations will be entitled to receive payment thereof in full before the Owners of Subordinated Obligations are entitled to receive payment thereof (except for any payment in respect of Subordinated Obligations from the Reserve Fund securing such Subordinated Obligations) and the Owners of the Subordinated Obligations will become subrogated to the rights of the Owners of Parity Obligations to receive payments with respect thereto.

SECTION 8.02. Application of Net System Revenues Upon Acceleration. All Net System Revenues received after the date of the declaration of acceleration by the Corporation as provided in Section 8.01 hereof shall be applied in the following order:

(a) First, to the payment of the costs and expenses of the Corporation and the Trustee, if any, in carrying out the provisions of this Article VIII, including reasonable compensation to its accountants and counsel;

(b) Second, to the payment of the entire principal amount of the unpaid Parity Installment Obligations and the unpaid principal amount of all other Parity Obligations and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable thereto in accordance with their respective terms. In the event there are insufficient Net System Revenues to pay the entire principal amount of and accrued interest on all Parity Obligations, then accrued interest shall first be paid and any remaining amount shall be paid on account of principal, and in the event there are insufficient Net System Revenues to fully pay either interest or principal in accordance with the foregoing, then payment shall be prorated within a priority based upon the total amounts due in that priority; and

(c) Third, to the payment of the entire principal amount of the unpaid Subordinated Obligations and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable thereto in accordance with their respective terms. In the event there are insufficient Net System Revenues to pay the entire principal amount of and accrued interest on all Subordinated Obligations, then accrued interest shall first be paid and any remaining amount shall be paid on account of principal, and in the event there are insufficient Net System Revenues to fully pay either interest or principal in accordance with the foregoing, then payment shall be prorated within a priority based upon the total amounts due in that priority.

SECTION 8.03. Other Remedies of the Corporation. The Corporation shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the City or any councilmember, officer or employee thereof, and to compel the City or any such councilmember, officer or employee to perform and carry out its or his duties under the Law and the agreements and covenants required to be performed by it or him contained herein;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Corporation; or

(c) by suit in equity upon the happening of an Event of Default to require the City and its councilmembers, officers and employees to account as the trustee of an express trust.

SECTION 8.04. Non-Waiver. (a) Nothing in this Article VIII or in any other provision hereof shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the Installment Payments to the Corporation at the respective due dates or upon prepayment from the Net System Revenues and the other funds herein committed for such payment, or shall affect or impair the right of the Corporation, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied herein.

(b) A waiver of any default or breach of duty or contract by the Corporation shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Corporation to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Corporation by the Law or by this Article VIII may be enforced and exercised from time to time and as often as shall be deemed expedient by the Corporation.

(c) If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Corporation, the City and the Corporation shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

SECTION 8.05. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Corporation is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by law.

ARTICLE IX

DISCHARGE OF INSTALLMENT PAYMENT OBLIGATIONS

SECTION 9.01. Discharge of Installment Payment Obligations. If the City shall pay or cause to be paid or there shall otherwise be paid to the Owners all Outstanding Installment Payment Obligations of a Series, the principal thereof and the interest and redemption premiums, if any, thereon or if all such Outstanding Installment Payment Obligations shall be deemed to have been paid at the times and in the manner stipulated in the applicable Issuing Instrument, then, as to any such Series, all agreements, covenants and other obligations of the City hereunder shall thereupon cease, terminate and become void and be discharged and satisfied, except for the obligation of the City to pay or cause to be paid all sums due hereunder.

ARTICLE X

MISCELLANEOUS

SECTION 10.01. Liability of City Limited to System Revenues.

(a) Notwithstanding anything contained herein, the City shall not be required to advance any moneys derived from any source of income other than the Net System Revenues and the other funds provided herein for the payment of the Installment Payments or for the performance of any other agreements or covenants required to be performed by it contained herein. The City may, however, but in no event shall be obligated to, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the City for such purpose.

(b) The obligation of the City to make the Installment Payments is a special obligation of the City payable solely from such Net System Revenues and other funds provided for herein, and does not constitute a debt of the City or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

SECTION 10.02. Benefits of Installment Purchase Agreement Limited to Parties. Nothing contained herein, expressed or implied, is intended to give to any person other than the City, the Corporation or the assigns of the Corporation and any Credit Provider any right, remedy or claim under or pursuant hereto, and any agreement or covenant required herein to be performed by or on behalf of the City or the Corporation shall be for the sole and exclusive benefit of the other party.

SECTION 10.03. Amendments. (a) This Installment Purchase Agreement may be amended with respect to a Series of Installment Payment Obligations in writing as may be mutually agreed by the City and the Corporation, with the written consent of any Credit Provider for any Installment Payment Obligations or, as to Installment Obligations for which there is no Credit Support Instrument, the Owners of a majority in aggregate principal amount of such Series of Installment Payment Obligations then Outstanding, provided that no such amendment shall (1) extend the payment date of any Installment Payment, or reduce the amount of any

Installment Payment without the prior written consent of the Owner of each Obligation so affected; or (2) reduce the percentage of Installment Payment Obligations the consent of the Owners of which is required for the execution of any amendment of this Installment Purchase Agreement without the prior written consent of each of the Owners so affected.

(b) This Installment Purchase Agreement and the rights and obligations of the City and the Corporation hereunder may also be amended or supplemented at any time by an amendment hereof or supplement hereto which shall not adversely affect the interests of the Owners of the Installment Payment Obligations and which shall become binding upon execution by the City and the Corporation, without the written consents of any Owner of Installment Payment Obligations or any Credit Provider, but only to the extent permitted by law and only upon receipt of an unqualified opinion of Bond Counsel to the effect that such amendment or supplement is permitted by the provisions of this Installment Purchase Agreement and is not inconsistent with this Installment Purchase Agreement and does not adversely affect the exclusion of the interest portion of the Installment Payments received by the Owners from gross income for federal income tax purposes, and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Corporation or the City contained in this Installment Purchase Agreement other covenants and agreements thereafter to be observed or to surrender any right or power herein reserved to or conferred upon the Corporation or the City;

(2) to cure, correct or supplement any ambiguous or defective provision contained in this Installment Purchase Agreement or in regard to questions arising under this Installment Purchase Agreement, as the Corporation or the City may deem necessary or desirable;

(3) to make other amendments or modifications which shall not materially adversely affect the interests of the Owners of the Installment Payment Obligations;

(4) to provide for the issuance of Parity Installment Payment Obligations; and

(5) to provide for the issuance of Subordinated Obligations.

SECTION 10.04. Successor Is Deemed Included in all References to Predecessor. Except as otherwise provided herein, whenever either the City or the Corporation is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the City or the Corporation, and all agreements and covenants required hereby to be performed by or on behalf of the City or the Corporation shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

SECTION 10.05. Waiver of Personal Liability. No official, officer or employee of the City shall be individually or personally liable for the payment of the Installment Payments, but nothing contained herein shall relieve any official, officer or employee of the City from the performance of any official duty provided by any applicable provisions of law or hereby.

SECTION 10.06. Article and Section Headings, Gender and References. The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to "Articles," "Sections" and other subdivisions or clauses are to the corresponding Articles, Sections, subdivisions or clauses hereof; and the words "hereby," "herein," "hereof," "hereto," "herewith" and other words of similar import refer to the Installment Purchase Agreement as a whole and not to any particular Article, Section, subdivision or clause hereof.

SECTION 10.07. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the City or the Corporation shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof

SECTION 10.08. Assignment. This Installment Purchase Agreement and any rights hereunder may be assigned by the Corporation, as a whole or in part, without the necessity of obtaining the prior consent of the City. The assignment of the Installment Purchase Agreement or rights hereunder or under a Supplement to a Trustee is solely in its capacity as Trustee and the duties, powers and liabilities of the Trustee in acting hereunder shall be subject to the provisions of the Issuing Instrument.

SECTION 10.09. Net Contract. This Installment Purchase Agreement shall be deemed and construed to be a net contract, and the City shall pay absolutely net during the term hereof the Installment Payments and all other payments required hereunder, free of any deductions and without abatement, diminution or setoff whatsoever.

SECTION 10.10. California Law. This Installment Purchase Agreement shall be construed and governed in accordance with the laws of the State of California.

SECTION 10.11. Notices. All written notices to be given hereunder shall be given by first class mail, postage prepaid, courier or hand delivery to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other party in writing from time to time, namely:

If to the City: City of San Diego
City Administration Bldg.
202 C Street, Mail Station 9B
San Diego, California 92101
Attn: Chief Financial Officer

If to the Corporation:	San Diego Facilities and Equipment Leasing Corporation c/o Office of the City Attorney 1200 Third Street, Suite 1100, Mail Station 59 San Diego, California 92101 Attn: Deputy City Attorney
With a copy to:	City of San Diego 202 C Street, Mail Station 9A San Diego, California 92101 Attn: Chief Financial Officer

SECTION 10.12. Effective Date. This Installment Purchase Agreement shall become effective as to Installment Payments provided for in a Supplement upon the execution and delivery of such Supplement or as otherwise specified therein, and shall terminate as to such Supplement when the Installment Payments contemplated by such Supplement shall have been fully paid or prepaid (or provision for the payment thereof shall have been made as provided herein).

SECTION 10.13. Execution in Counterparts. This Installment Purchase Agreement and each Supplement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

SECTION 10.14. Exhibits. All exhibits referenced herein are incorporated into and made a part of this Installment Purchase Agreement.

SECTION 10.15. Sole Instrument. This Installment Purchase Agreement (together with the exhibits attached hereto) shall embody and constitute the sole and entire agreement between the parties hereto with respect to the subject matter hereof.

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

THE CITY OF SAN DIEGO

By _____
Chief Financial Officer

(SEAL)

Attest:

_____
City Clerk

SAN DIEGO FACILITIES AND EQUIPMENT LEASING CORPORATION

By _____
President

Attest:

_____
Secretary/Treasurer

APPROVED AS TO FORM:

JAN I. GOLDSMITH,
City Attorney of the City of San Diego

By _____
Deputy City Attorney

EXHIBIT A

DESCRIPTION OF 1998 PROJECT

Pursuant to Section 3.02 of the Installment Purchase Agreement, this Exhibit A may be amended from time to time and at any time to modify or amend the description of the Project, to eliminate any part thereof and/or to substitute a Component or Components, all without obtaining any consent, by filing an amended Exhibit A with the Corporation and the affected Trustee; provided, however, that no such amendment shall in any way impair the obligations of the City contained in any Supplement executed and delivered prior to any such amendment.

732290 65th & Herrick Water Pump Plant

This project includes the construction of a new pump plant equipped with three variable speed pumps and one backup pump and motor. The new facility will be constructed of concrete with architectural treatment to blend well into the surrounding environment. Each pump will be able to pump water within a range of 550 gpm to 1,300 gpm with a total dynamic head (TDH) of 80 feet to 150 feet, respectively.

$1,817,032 or 100% of the total cost of this project is funded from current bond issue (including reimbursement).

733101 AA – Corrosion

This is an annual allocation to fund the installation of corrosion protection facilities (such as "anode beds" and "deep well anodes") to extend the service life of existing facilities.

$822,586 or 13% of the total cost of this project is funded from current bond issue (including reimbursement).

730018 AA – Reclaimed Water Extension

Extensions of the north City reclaimed water distribution pipeline network beyond the sphere of influence of the existing north City area and improving the reclaimed water distribution system as the demands for reclaimed water increase.

$2,710,796 or 34% of the total cost of this project is funded from current bond issue (including reimbursement).

73083 AAA – Water Main Replacements

Water mains that were installed in the City's water distribution system in the 1930's to the late 1940's were made of cast iron. The intended service life of these lines was 50 years, and they have gradually deteriorated due to the corrosive soils. In the 1960's, the Water Department began a systematic effort to identify and replace aging cast iron water mains. At that time there were approximately 600 miles of cast iron lines installed throughout the system. Today, approximately 214 miles of cast iron pipes remain which must be replaced. This project continues the funding to replace those mains. At the present time, approximately 80 percent of

the City's annual water main breaks are attributed to cast iron mains, yet they comprise only 7 percent of the entire water delivery infrastructure. In 1997, approximately 19 miles were completed. An additional 67 miles were in various stages of design and the balance of 147 miles remains in planning and project development. The cast iron water main replacement program included in this bond program is estimated to complete a total of 96 miles through the year 2008. The balance of 118 miles is scheduled for completion in subsequent capital programs.

Under current City policy, concrete sewer and cast iron water mains situated in the same public right-of-way are replaced at the same time to avoid an additional $65 million in costs for twice-repeated service disruptions, street resurfacings, traffic impacts, and contractual actions.

$55,321,064 or 63% of the total cost of this project is funded from current bond issue (including reimbursement).

732630 AA – Water Pump Plant Relocation

Two water pump plants have been identified for rehabilitation under this CIP. They are the Catalina Water Pump Plant and the Del Cerro Highlands Water Pump Plant. See SubCIP No. 738424 for more detailed information of the Del Cerro Highlands Water Pump Plant.

0% of the total cost of this project is funded from current bond issue (including reimbursement).

733330 Air Valve Adjustments

This activity includes raising approximately 429 existing air and vacuum release valve vents and air release valves from below grade vaults to above-ground vaults, enclosed in 3/16" steel cylinders and mounted on concrete pads (in accordance with City of San Diego Standard Drawing No. SDW-117).

$906,323 or 58% of the total cost of this project is funded from current bond issue (including reimbursement).

732610 Alvarado Filtration Plant Expansion

This project is the expansion of the existing Alvarado Water Treatment Plant in two or three phases from the current treatment capacity of 120 mgd to 210 mgd, and improve the plants operating performance to comply with improved treatment standards. The Alvarado Filtration Plant was constructed in 1951 for an initial capacity rating of 66 million gallons per day (mgd) with future expansion capability to 100 mgd. It was expected that one additional flocculation & sedimentation basin and four additional filters would be constructed at some later date to achieve the 100 mgd capacity. Several hydraulic improvements were made in the mid-1970's to increase the plant's hydraulic capacity from the initial 66 mgd to the current 120 mgd without constructing the additional basin and filters. The recent peak water demand day has approached 130 mgd which exceeds the maximum plant capacity.

The initial phase of the expansion program will increase the capacity from 120 mgd to 150 mgd which will meet the projected water demand through 2015. The plant will also be upgraded to meet the Safe Drinking Water Act standards and rehabilitated to restore deteriorated facilities.

The expansion, upgrade and rehabilitation work will involve: rapid mix facility, existing filters, raw water chemical building, finish water chemical building, operation building, Lake Murray and College Ranch Pump Stations, main switchgear building, yard piping, instrumentation and control, electrical and civil/site work, ozone facilities, existing flocculation and sedimentation basins, new flocculation and sedimentation basins, new tillers, and sludge handling facilities (see attached sheet with proposed system upgrades and expansions).

$89,926,365 or 64% of the total cost of this project is funded from current bond issue (including reimbursement).

732581 Alvarado JT Lab – HVAC Ventilation

Upgrade of Heating Ventilating & Air Conditioning system at the Alvarado Joint Water Quality Laboratory.

$383,137 or 84% of the total cost of this project is funded from current bond issue (Including reimbursement).

732611 Alvarado Phase II – Operations Building

Design services for project which involves renovation to existing Operations Building, to be constructed as part of the Alvarado Phase II Project.

$31,206 or 100% of the total cost of this project is funded from current bond issue (including reimbursement).

732612 Alvarado Phase III – Lake Murray

Design services for expansion of the Lake Murray Pump Station, to be constructed as part of the Alvarado Phase I project.

$44,708 or 100% of the total cost of this project is funded from current bond issue including reimbursement).

733270 Alvarado Water Pump Plant – Upgrade

The existing pump plant, built in 1965, consists of 4 Byron Jackson pumps rated at 3,500 gpm and 130-feet TDH. Motors are General Electric 150 horsepower. This pump station provides emergency supply to portions of the Miramar system including Kearny Mesa and Tierrasanta.

This project includes replacing the existing pumps, electrical system and control system and rehabilitating the existing building.

$296,986 or 51% of the total cost of this project is funded from current bond issue (including reimbursement).

733170 Barrett Reservoir Outlet Tower Upgrade

The existing Barrett Reservoir dam is a concrete gravity structure with a 120-foot high outlet tower and 26 automatic flash gates located on the spillway.

The required outlet tower repairs include:

Replace 3 each 30-inch gate valves. New valves to include motor operators. Provide hand-off switches located at top of tower. (Existing power to the tower is adequate for the proposed motor operators). Replace 3 each 30-inch cast iron, fabricated "saucer valves" on the exterior of the tower.

Replace 30-inch diameter piping Inside outlet tower including approximately 120 feet of pipe and 4 TEE's. Replace 3 each, operating platforms, 14-feet, 8-inch diameter at the level of each gate valve. Replace motorized winch, sheaves and cable.

Required spillway repairs include replacing or repairing 26 each 6.5-foot wide by 9-foot high spillway flash gates. Existing gates are fabricated of 3/16-inch plate with stiffeners, water stops, trunnions and other appurtenances. Protective coatings and cathodic protection needed for either repairs or replacement.

0% of the total cost of this project is funded from current bond issue (including reimbursement).

732360 Bayview Reservoir

This project consists of replacing an existing 10-million gallon, partially buried concrete reservoir with a new reservoir with the same capacity at the same site. The existing reservoir has deteriorated and is failing.

$6,055,446 or 50% of the total cost of this project is funded from current bond issue (including reimbursement).

732650 Bayview Water Pump Plant

This project is the construction of a new pump plant at the Bayview Reservoir and installing 522 linear feet of 20-inch CML&C welded steel pipe to serve as a reservoir by-pass line. Also included in the project are minor paving and landscaping restorations to the site.

$783,509 or 100% of the total cost of this project is funded from current bond issue (including reimbursement).

732160 Black Mountain Reservoir

This project consists of the construction and funding of a 15 million gallon reservoir by developers near the City's No. 10 water connection to the County Water Authority's Second Aqueduct, immediately west of Rancho Penasquitos.

$9,424,779 or 96% of the total cost of this project is funded from current bond issue (including reimbursement).

709200 Bonita Pipeline – Phase II

This project involves the replacement of the existing 24-inch diameter Bonita Pipeline north of Imperial Avenue with new 36-inch diameter cement mortar lined and coated (CML&C) welded steel pipe along Churchward Street and Hilltop Drive. The installation will be within the City of San Diego street right-of-way. The majority of construction will be open cut trench installation, with the installation of four 500-foot long, 46-inch diameter steel casings under Interstate 805 and Interstate 15, using tunneling/pipe jacking techniques.

$1,058,931 or 11% of the total cost of this project is funded from current bond issue (including reimbursement).

759105 Catalina Standpipe Connection / Navy

This project consisted of installing a connection from the Catalina Standpipe to the water distribution network on the Naval base. The work was completed by the Navy.

0% of the total cost of this project is funded from current bond issue (including reimbursement).

734006 Catalina Standpipe Renovation

The Catalina Standpipe is 73 feet tall, 59 foot in diameter, has a storage capacity of 1.5 million gallons, and was built in 1954. This project will provide additional anchor bolts between the existing tank and foundation mat to resolve seismic problems.

$132,515 or 100% of the total cost of this project is funded from current bond issue (including reimbursement).

733094 Chesterton Standpipe

The Chesterton Standpipe has a storage capacity of 1 million gallons, and was constructed 1953. It is no longer in service nor beneficial to the operation of the water transmission and distribution system and consequently is to be demolished.

$334,752 or 100% of the total cost of this project is funded from current bond issue (including reimbursement).

733350 Dams & Appurtenances Mod Study

This project consists of making repairs and improvements at the existing dams. There are 429 identified projects, each very small, and no formal designs are required. Replacement and repairs have been initiated with work being done by City forces. It Is anticipated that a combination of City forces and contractors will complete the projects. The maximum design effort anticipated for each valve will be two 8-1/2 by 11-inch sketches with the City's Standard Drawing for Air and Vacuum Valve Enclosure.

$1,059,524 or 71% of the total cost of this project is funded from current bond Issue (including reimbursement).

732680 Deerfield Water Pump Plant

This project Includes replacing the existing underground Hillandale Pump Plant with a new water pump plant located on Mission Gorge Road across from Deerfield Street. Land for this purpose was acquired in 1995. The project includes a pump plant rated at 9,000 gallons per minute(gpm) and 13,000 linear feet of 24-inch diameter pipe to connect the pump plant to the San Carlos area water system. The pump plant Includes: four (4) vertical turbine pumps (each 2,500 gpm @ 350 ft. head), on-site suction and discharge piping including valves, power and I&C system, and a concrete masonry unit building (50 ft, x 42 ft.). The work also Includes demolition of the existing Hillandale Water Pump Plant.

$6,158,218 or 100% of the total cost of this project is funded from current bond issue (including reimbursement).

738424 Del Corm Highlands Pump Plant

The existing buried pump station (22 feet x 12 feet, plus stair well) will be expanded to 50 feet x 12 feet, plus stairwell. In the newly expanded space, two 75 horsepower vertical turbine pumps and two 25 horsepower vertical turbine pumps will be installed. The 25 horsepower pumps will have variable speed drives. A 140 Kw, natural gas driven engine/generator will be installed in the existing pump room after removal of the existing pumps to assure continued operation during emergencies. Floor elevation of new structure is 14 feet below grade. Structure will be located predominately in parkway with piping connections within the street.

$458,175 or 75% of the total cost of this project is funded from current bond issue (including reimbursement).

733091 Del Cerro Reservoir Upgrade

The Del Cerro Reservoir is a covered concrete reservoir with a storage capacity of 0.5 Million gallons, constructed in 1956. A 1992 report recommended that a number of improvements to the facility and site be made. Recommendations included improvements to the site safety conditions, sanitary facilities, interior and exterior surfaces as well as structural upgrades.

$884,118 or 98% of the total cost of this project is funded from current bond issue (including reimbursement).

732510 Del Mar Heights Road Pipeline

The project is the installation of 8,000 linear feet of 24-inch diameter cement mortar lined & coated (CML&C) welded steel pipe along a new section of Del Mar Heights Road.

$0 or 0% of the total cost of this project is funded from current bond issue (including reimbursement).

722910 Eichenlaub Ranch Acquisition

The subject parcel is sought for the following reasons: watershed preservation, access to facilities at Barrett Reservoir, to enhance wildlife and habitat values, and to provide possible environmental mitigation credit. This acquisition which involves six contiguous parcels, totaling 1,339 acres, would ensure that. the property will remain undeveloped in perpetuity. In addition, the City's main access to facilities at Barrett Reservoir is a road that crosses this property (the "Wilson Creek Road"). The City's right to use this road is suspect, and has come under question in the past. This situation would be eliminated with the acquisition of the parcel.

$4,600,000 or 100% of the total cost of this project is funded from current bond issue (including reimbursement).

733190 El Capitan Reservoir Rd Improvements

Approximately 2.5 miles of access road, starting at the base of the dam and proceeding counterclockwise around the reservoir to the southern tip of the lake will be repaired and portions need widening in this project. Three existing observation wells on the downstream face have badly corroded casings and do not function. They will be replaced with three new observation wells with 4-inch casings and the following depths: 175-feet, 150-feet and 125-feet deep. The top 10 to 30 feet of the wells must be drilled through hand placed boulders. Each well will be equipped with piezometers to measure water levels, with signals transmitted to existing radio towers.

$294,108 or 54% of the total cost of this project is funded from current bond issue (including reimbursement).

733097 Emerald Hills Standpipe Upgrade

The Emerald Hills Standpipe is located on an alleyway between Eider Street and Scimitar Drive. The standpipe sits along a ridge, with single-family housing immediately adjacent to and below the structure. Built in 1962, the standpipe is 52 feet in diameter with a steel shell height of 96 feet and a conical roof extending 2 feet above the shell. This project includes seismic retrofit work to withstand substantial earthquakes.

$104,066 or 77% of the total cost of this project is funded from current bond issue (including reimbursement).

734000 Encanto Standpipe

This project entails the demolition of the existing standpipe, relocation of existing utilities, site improvements, and installation of a new sprinkler system for the existing landscaping.

$304,632 or 100% of the total cost of this project is funded from current bond issue (including reimbursement).

709110 Genesee Avenue Subsystem

This system will distribute reclaimed water from the North City Water Reclamation Plant to areas west of the plant, particularly Torrey Pines Golf Course, Caltrans right-of-way, and UCSD. The pipe commences as a 36-inch diameter pipe starting at the west portal of the North City Tunnel Connector west of interstate 805, then proceeding northwesterly to and along Executive Drive. The pipeline continues as a 24-inch pipe and proceeds northerly along Regents Road to Genesee Avenue, then westerly along Genesee Avenue across Interstate 5 to the intersection of Genesee Avenue and North Torrey Pines Road. A 16-inch pipe proceeds northerly to the North Course meter at Torrey Pines Golf Course, and southerly to the South Course meter connection.

Turnouts to Caltrans right-of-way at Interstate 5 and Genesee Avenue and UCSD will be provided along the pipe alignment.

$8,260,669 or 100% of the total cost of this project is funded from current bond issue (including reimbursement).

733360 Joint Lab Standby Emergency Power

Install a 275 Kw (preliminary size estimate) emergency engine/generator for the Joint Laboratory at the Alvarado Filtration Plant. The generator will provide power to five labs (M-10, J-11, P-10, R-10 and R-30), the north air handler and two exhaust fans. In the event of any electrical power failure. The engine/generator will be installed outside with concrete screen walls (retaining wall may be required) for aesthetics and sound dampening.

$8,300 or 0% of the total cost of this project is funded from current bond issue (including reimbursement).

733010 Kearny Mesa Pumps

This project is the construction of a new water pump plant with three 5 mgd pumps. The pump plant will pump water from the Alvarado Zone (536) to the Northwest Mesa Zone (currently 559, but wilt be raised to 600). Emergency power will be provided by portable, engine-generator sets. The pump plant will connect to the existing 36-inch Keamy Mesa Pipeline.

$137,618 or 7% of the total cost of this project is funded from current bond issue (including reimbursement).

734002 La Jolla Country Club Reservoir

The La Jolla Country Club Reservoir is a concrete reservoir, with a storage capacity of 0.5 million gallons, and was constructed in 1927. This project includes repairs to the facility to improve safety, sanitation, appurtenances, and exterior and interior surfaces.

$25,629 or 31% of the total cost of this project is funded from current bond issue (including reimbursement).

734008 La Jolla Exchange Place Reservoir

The La Jolla Exchange Place Reservoir is a covered concrete reservoir, with a storage capacity of 0.99 million gallons. It was constructed in 1955.

This project includes repairs required for site improvements, safety, sanitation, appurtenances, and exterior and interior protective coatings.

$11,200 or 10% of the total cost of this project is funded from current bond issue (including reimbursement).

734007 La Jolla View Reservoir

The La Jolla View Reservoir is a steel tank, measuring 70-feet in diameter by 25-feet high, with a storage capacity of 0.72 million gallons. It was built in 1949. This project includes repairs and site improvements to improve safety, sanitation, appurtenances, exterior and interior protective surfaces, and structural integrity.

$20,901 or 8% of the total cost of this project is funded from current bond issue (including reimbursement).

732830 Lakeside Pump Plant

This project involves the upgrade of the existing Lakeside Pump Plant by replacing the existing pumps and motors to increase the capacity to 110 MGD @ 165 feet of head as a result of the City's Reservoir Management Study (May 1995). Design and construction of the major renovation items will include new pumps, motor starters, valves, metering devices, facilities, and the complete automation of the pump plant in coordination with the Alvarado Treatment Plant.

$950,935 or 9% of the total cost of this project is funded from current bond issue (including reimbursement).

733098 Lomita Village Standpipe Removal

The Lomita Village Standpipe is located at the corner of Skyline Drive and Bowie Street. The Standpipe is 38 feel in diameter, with a steel shell height of 95 feet, and an umbrella roof extending 2 feet above the shell. This reservoir, which was built in 1953, will be demolished under this program.

$300,414 or 99% of the total cost of this project is funded from current bond issue (including reimbursement).

733430 Lower Otay Reservoir

The existing Savage Dam backs up Lower Otay Reservoir. At the present time, fifty-six days are required for 10 percent draw down of the reservoir through the existing 40-inch (48-inch prior to slip lining) outlet pipe. State regulation requires 10 percent draw down in 10 days.

This project will increase the draw down capacity by installing dual 48-Inch drain pipes through the existing auxiliary spillway (in addition to existing 40-inch described above). Installation will include two 48-inch butterfly valves and 48-inch flap gates on the spillway bulkheads and intake screens on the upstream end. Length of each pipe will be 70-feet. Maximum existing grade over the pipes is approximately 10-feet above the intended drain pipe invert.

$56,700 or 17% of the total cost of this project is funded from current bond issue (including reimbursement).

732460 Mid-City Pipeline

The original scope of work for this project included the Installation of 24,955 linear feet of new 48-inch diameter cement mortar lined & coated (CML&C) steel pipe primarily along El Cajon Boulevard and 37th Street.

Following a Value Engineering Study and the conclusions from a recent Mid-City Planning Study (April 1998), portions of the pipeline alignment have been modified. The changes include:

the pipeline between Highland Avenue and Marlborough Avenue, a total of 2,300 linear feet, has been reduced from 48-inch diameter to 24-inch;

the pipeline between Marlborough Avenue to Cherokee Avenue, total length of 3,492 linear feet, has been reduced from 48-inch diameter to 20-inch;

3,860 linear feet of pipeline on 37th St. and two pressure reducing valves (PRV) stations located at Myrtle & 37th St. and Wightman & 37th St. were; and

approximately 1,300 linear feet of 48-inch pipeline and a PRV station on Highland Avenue between El Cajon Boulevard and Polk Avenue have been added.

$19,695,901 or 99% of the total cost of this project is funded from current bond issue (including reimbursement).

733140 Mid-City Water Pump Plant

This project is the construction of a pump plant to feed the Mid-City Pipeline from the Alvarado Water Treatment Plant. This pump plant is part of a proposed Mid-City Pipeline to provide required redundancy for, and to relieve the capacity load on, the existing Trojan Pipeline which is the "backbone" transmission facility of the Alvarado water supply system. To avoid the high cost of crossing Interstate 8 (I-8), the pump plant discharge pipe will be connected to the San Diego County Water Authority's (SDCWA's) Pipeline 4B at a location north of Interstate 8, water will be taken out of Pipeline 4B south of Interstate 8 at the future Mid-City Pipeline connection.

The pump plant will have a total capacity of 155 cubic feet per second (cfs). The project flow rate at the Mid-City Pipeline is 93 cfs and the balance, 62 cfs will be used by the SDCWA. An emergency generator and fuel tank with secondary containment system will also be provided.

Approximately 1,000 feet of 72-inch diameter steel pipe will be installed to transmit water from the Alvarado Filtration Plant into the SDCWA's La Mesa/Lemon Grove Pipeline.

$13,331,823 or 89% of the total cost of this project is funded from current bond issue (including reimbursement).

709105 Miramar Pipeline Improvements – Phase III

This project consists of replacing and/or rehabilitating 14,400 linear feet of existing 51-inch cylinder pipe on Mira Mesa Boulevard between Stadium Street and Weston Hill Drive. It is expected that the project will be a combination of pipe replacement with 54-inch diameter cement mortar lined & coated (CML&C) steel pipe and/or rehabilitation of the existing pipe. The rehabilitation will include the installation of a welded steel liner, grouted into position and cement mortar lined. The existing pipeline can only be shut down during the winter months (November through April) and all construction work must be conducted at night to minimize impact to traffic and business impacts along Mira Mesa Boulevard. The City will be establishing an Inspection Program to ascertain the existing pipe condition. Dependent upon the outcome of the inspection, this project may be modified.

$1,869,520 or 17% of the total cost of this project is funded from current bond issue (including reimbursement).

709106 Miramar Pipeline Improvements – Phase IV

This project includes the replacement of/or rehabilitation of 12,470 linear feet of existing 51-inch diameter prestressed concrete cylinder pipe along Mira Mesa Boulevard and Scripps Lake Drive. Preliminary planning includes a combination of pipe replacement with 54-inch diameter cement mortar lined & coated (CML&C) steel pipe and/or rehabilitation. The rehabilitation will consist of the Installation of a welded steel liner, grouted into position and cement mortar lined. The existing pipeline can only be shut down during the winter months (November through April) and all construction work must be conducted during that period and at night to minimize impact to traffic and businesses along Mira Mesa Boulevard. The City will establish an Inspection Program to ascertain the existing pipe condition end determine where rehabilitation is appropriate. The project scope may change depending on the study findings.

$1,516 or 0% of the total cost of this project is funded from current bond issue (including reimbursement).

709102 Miramar Pipeline Improvements – Phase I

This project included studies and design for the rehabilitation of the Miramar Pipeline from the Miramar Water Treatment Plant to Interstate 805. This activity is complete.

$185,516 or 9% of the total cost of this project is funded from current bond issue (including reimbursement).

709103 Miramar Pipeline Improvements – Phase II

This project includes the installation of approximately 4,389 linear feet of 54-inch diameter cement mortar lined & coated (CML&C) steel pipe to replace existing deteriorated pipe between Carroll Canyon Road and Mira Mesa Boulevard and the rehabilitation of approximately 400 linear feet of 51-inch diameter pipe along Mira Mesa Boulevard. It is anticipated that the replacement will be accomplished through traditional open cut trench and cover techniques along Pacific Heights Boulevard and 1,000 linear feet of Mira Mesa Boulevard. The pipe rehabilitation will include the installation of a welded steel liner, grouted into position and cement mortar lined. Shut-down of the existing pipeline for rehabilitation is limited to winter months (November through April) and all work will be conducted at night to limit the impact to traffic and businesses along Mira Mesa Boulevard. (Note: The City will internally inspect the pipeline to determine its current condition. Dependent upon the findings of the inspection, the scope of work may change to replace more or less pipe.)

$4,729,056 or 99% of the total cost of this project is funded from current bond issue (including reimbursement).

733370 Miramar Pipeline No. 2A

This project includes the installation of a new transmission pipeline to deliver potable water to the northern coastal and north City areas to accommodate growth in the north City area, ensure system reliability and reduce imported filtered water purchases from the SDCWA.

The pipeline will consist of 11,100 linear feet of 90-inch diameter, 4,500 linear feet of 78-inch diameter, 3,360 linear feet of 66-inch diameter and 9,890 linear feet of 36-inch diameter cement mortar lined & coated (CML&C) welded steel or steel cylinder rod-wrapped pipeline.

The 90-inch diameter section of the pipeline will pass under the Interstate 15 freeway along Carroll Canyon Road and be placed in the extremely congested right-of-way along Scripps Lake Drive between Scripps Ranch Boulevard and the Miramar Pump Station.

$340,537 or 12% of the total cost of this project is funded from current bond issue (including reimbursement).

730017 Miramar Road Pipeline

This project consists of installing 24-Inch diameter 24,000 linear feet of cement mortar lined and coated (CML&C) welded steel pipe along Miramar Road to parallel the existing Miramar Road Pipeline. All of the installation will be within the City of San Diego street right-of-way. Construction will be by traditional open cut trench techniques and pipe jacking/tunneling under major intersections.

$500,296 or 10% of the total cost of this project is funded from current bond issue (including reimbursement).

709120 Miramar Road Subsystem

The Miramar Road Subsystem involves a portion of the reclaimed water distribution subsystem that will ultimately connect to pipelines serving users along the Interstate 15 corridor to the north. The 48-inch diameter pipe will start at the southerly limits of the North City Water Reclamation Plant. The pipeline proceeds easterly along Miramar Road to Its terminus at the prolongation of Rigel Avenue. A turnout will be provided at Production Avenue for future northerly users.

$10,669,064 or 25% of tile total cost of this project is funded from current bond Issue (including reimbursement).

709160 Miramar Road Subsystem Extension

This Miramar Road Subsystem Extension will distribute reclaimed water to users along the interstate 15 corridor to the north. Preliminary alignment for the approximately 17,500 feet of 42-inch pipeline is described as follows: commencing at the terminus of the Miramar Road Subsystem, the pipeline runs east across Interstate 15, then along Pomerado Road to Willow Creed Road, then northward along Willow Creek Road, Business Park Avenue, and Carroll Canyon Road terminating at Scripps Ranch Boulevard.

$10,166,179 or 39% of the total cost of this project is funded from current bond issue (including reimbursement).

709170 Miramar Storage Tank and Raw Water Connection

This system will serve the reclamation needs of the Scripps Ranch North area with subsequent connections to pipelines serving users along the Interstate 15 corridor northward. Preliminary alignment for the approximately 2,500 feet of 42-inch pipeline is described as follows: commencing at the terminus of the Miramar Road Subsystem Extension, then north along Scripps Ranch Boulevard and east to its terminus at a storage facility located at the eastern end of Meanley Drive. This also includes design of an 8 million gallon storage tank. A 2,500 linear foot, 24-inch raw water connection from Miramar Lake to the storage facility is also included.

$11,916,498 or 35% of the total cost of this project is funded from current bond issue (including reimbursement).

732840 Miramar Water Treatment Plant

The Miramar Water Treatment Plant requires upgrades to the facility and treatment process to comply with Safe Drinking Water Act standards, and to meet increasing water demands. This project includes rehabilitation work and new construction. The summer demands now exceed the existing capacity of 140 million gallons per day. The need for increased capacity, deterioration at existing plant facilities, compliance with the standards, and the goal of both the City and the San Diego County Water Authority (SDCWA) to dissolve the City's reliance upon imported filtered water supplies, have all combined to create the need to expand plant capacity to meet projected water demands through 2015, rehabilitate the plant's aging 36-year-old treatment facilities, and upgrade treatment processes including the addition of an ozonation process.

$8,812,743 or 9% of the total cost of this project is funded from current bond Issue (including reimbursement).

733300 Mission Valley Aquaculture Facility Demolition

Demolition of a demonstration pilot water reclamation treatment plant which used water hyacinth and other alternative methods to remove pollutants.

$103,696 or 16% of the total cost of this project is funded from current bond issue (including reimbursement).

733210 Morena Reservoir Outlet Tower Upgrade

The existing Morena Dam is a rock embankment dam with a parapet wall height of 171 feet above the original stream bed. The outlet tower is 132 feet from the operating floor to the center line of the outlet tunnel. The piping and mechanical system of the outlet tower will be replaced or repaired. A granite boulder and fissure grotto was formed beneath granite blocks by water erosion and carved into a crack in the bedrock. This grotto is approximately 800-feet long and on the order of 20-feet wide and 60-feet high, and extends below the dam. The following repairs are included in the project:

replace each of five 24-inch gate valves with motor operated valves;

refurbish or replace each of three 24-inch square sluice gates;

replace piping including 70-feet of 30-inch pipe, 60-feet of 24-inch pipe, five 30-inch T's, and appurtenances;

replace four valve operating platforms;

provide electrical energy from existing power lines on the shore located a few hundred feet away; and

conduct grotto repairs: grout that portion of grotto located below the dam.

$0 or 0% of the total cost of this project is funded from current bond issue (including reimbursement).

733380 Operation Center Relocation

Develop a Central Water Department Operations Station on an approximately 25-acre site in the Kearney Mesa area to accommodate 640 employees, 340 vehicles and equipment currently located at Cholles Operations Station, Rose Canyon Operations Station, Alvarado Operations Yard and the Comerica Bank Building downtown.

Required facilities:

Office space for 261 employees; 80,000 to 100,00 square feet.

Vehicle Repair Facility; 25,000 square feet of roofed space.

Warehouse Space; 55,000 square feet,

Parking lots and storage yards; 400,000 square feet.

Fuel island and wash racks; 2 - 20,000 gal tanks, 14 dispenser, 7 islands and 3 wash racks.

Site development, utilities, improvements, landscape and irrigation are also required.

$33,629,526 or 60% of the total cost of this project is funded from current bond issue (including reimbursement).

732862 Otay 2nd Pipeline – North of SR-94

This project includes the installation of approximately 6,725 linear feet of 42-inch diameter cement mortar lined & coated (CML&C) steel pipe north of State Route 94 to replace a section of the existing 36-Inch diameter Otay Second Pipeline built in 1928. The majority of the pipe to be, replaced will be within the City of San Diego street right-of-way, with some canyon crossings requiring permanent easements. In some locations, the right-of-way may be relocated due to the occurrence of environmentally sensitive habitat. Construction will be mostly open cut trench with some pipe jacking or tunneling under major intersections.

$951,520 or 33% of the total cost of this project is funded from current bond issue (including reimbursement).

732860 Otay 2nd Pipeline – Phases 1 thru 6

This project includes the installation of approximately 30,000 linear feet of 54-inch diameter cement mortar lined & coated (CML&C) steel pipe between Telegraph Canyon Road and State Route 54 to replace that portion of the existing 36-inch and 40-inch diameter Otay Second Pipeline built in 1928. A majority of the installation will be within the City of Chula Vista street right-of-way, with some canyon crossings requiring permanent easements. It is anticipated that construction will be open cut trench and cover with some pipe jacking and/or micro tunneling at major intersections. In some instances the right-of-way may have to be relocated due to occurrence of environmentally sensitive habitat in the existing right-of-way.

$3,216,894 or 13% of the total cost of this project is funded from current bond issue (including reimbursement).

732500 Otay Mesa Reservoir

The Otay Water Treatment Plant does not have a clear well reservoir for chlorine contact time and storage capacity for peak demands. This project is to provide clear well storage capacity to meet rapidly growing needs and will enable the treated water to comply with mandated minimum chlorine contact times for the nearest consumer.

$449,459 or 13% of the total cost of this project is funded from current bond issue (including reimbursement).

733150 Otay Plant Raw Water Connection

An amendment to an existing contract to install additional valves in the flow control facility (metering station) to accommodate the San Diego County Water Authority's conversion of its Pipeline No. 3 from treated to raw water. Pipeline No. 3 conveys water to the Otay Water Filtration Plant. The Otay Water Filtration Plant will now have another source of raw water in addition to its local surface water supply (Otay, Barrett and Morena Lakes).

$181,924 or 41% of the total cost of this project is funded from current bond issue (including reimbursement).

709100 Otay Reservoir Raw Water Pipeline

Engineering and construction services for the rehabilitation of 1,480 linear feet of 48-inch concrete-lined, steel outlet tunnel from the lake, structural modifications to the raw water outlet tower platform, replacement of 36-inch butterfly valve with 48-inch butterfly valve and installation of 48-inch saucer valve and elbow at the base of the outlet tower. Installation of bypass pumping system to provide water to the filtration plant during outlet tower/tunnel work.

$2,078,107 or 99% of the total cost of this project is funded from current bond issue (including reimbursement).

733390 Otay WTP Basin Corrosion Repairs

Repair the existing sedimentation basins, flocculation basins and influent channel at the Otay Filtration Plant. Over 59,000 square feet of concrete in these facilities will be repaired end coated as a part of this project.

$1,031,199 or 100% of the total cost of this project is funded from current bond issue (including reimbursement).

732850 Otay WTP Expansion

This project will upgrade the existing Otay Water Treatment Plant to comply with Safe Drinking Water Act standards (Phase I). Also, depending on the outcome of future studies, it may be expanded from the current 40 mgd capacity to 60 mgd to accommodate water demands (Phase II) in the Otay Mesa area. Only the upgrade is proposed at this time.

The Phase 1 project will include: ozonation facilities (ozone generator and ozone contactors) to provide pre-and post-ozonation; GAC filter caps for existing filters; wash water recovery system; sludge handling; electrical & instrumentation system; and other improvements including site work, yard piping and provision for future facilities.

$151,807 or 1% of the total cost of this project is funded from current bond issue (including reimbursement).

733220 Otay WTP Raw Water Pump Conversion

The existing Pump Station consists of one 8 mgd pump, three 15 mgd pumps, and platforms for two additional pumps.

This project entails installation of a variable speed drive to one of the existing 15 mgd, 300 Hp pumps.

$253,238 or 60% of the total cost of this project is funded from current bond issue (including reimbursement).

73277D Pacific Beach Reservoir

The Pacific Beach Reservoir is currently disconnected from the water system because of severe leakage. It is currently a dry reservoir. A planning study will be prepared to determine if this reservoir can be taken out of service permanently or if the reservoir should be rehabilitated and connected beck to the water system.

$201 or 0% of the total cost of this project is funded from current bond issue (including reimbursement).

733099 Paradise Hills Standpipe

The Paradise Hills Standpipe will be demolished under this program.

$562,906 or 100% of the total cost of this project is funded from current bond Issue (including reimbursement).

733460 Paradise Mesa Pump Plants 1 & 2 Upgrade

The existing Paradise Mesa Pump Plant No. 1, built in 1964, and the Paradise Mesa Pump Plant No. 2, built in 1971, each consist of three vertical turbine pumps each rated at 2,250 or 2,275 gallons per minute. Each of the pumps are 100 horsepower and each were manufactured by a different company. These pump plants serve an area of approximately 30,000 residents.

This project entails upgrading existing pump plants to allow substitution of San Diego City water for San Diego County Water Authority (SDCWA) water now provided via the SDCWA #19 (Old # 13) Paradise Mesa Crosstie tandem, which is currently the primary supply of water to the Paradise Mesa 610 Pressure Zone. The estimated size of each pump station after upgrade will be 600 Hp.

$136,861 or 12% of the total cost of this project is funded from current bond issue (including reimbursement).

734005 Paradise Mesa Standpipe

The Paradise Mesa Standpipe was erected in 1979. It is 120-feet tall and has a diameter of 64-feet, with a capacity of 2.5 million gallons. This standpipe services the 610 Pressure Zone.

Current seismic standards require that the standpipe be retrofitted at the foundation to reduce the chances of failure in the event of an earthquake. Also, due to health risks, the lead-based interior and exterior coatings require removal. Other work will include upgrades to the access road and appurtenances.

$530,823 or 100% of the total cost of this project is funded from current bond issue (including reimbursement).

749251 Penasquitos Reservoir Upgrade

The Penasquitos Reservoir is a post-tensioned concrete lank, with a storage capacity of 5 million gallons. It is 34 feet high by 160-feet diameter, and was constructed in 1966.

This project includes minor repairs to existing appurtenances, an investigation of the physical condition of prestressed wire by removal of exterior shotcrete covering, and provision of flexible pipe connections at base of tank wall for seismic resistance.

$31,500 or 12% of the total cost of this project is funded from current bond issue (including reimbursement).

732092 Point Loma Reservoir

Point Loma Reservoir is a partially buried, 21-feet deep concrete reservoir with a 1.5 acre surface area. It has a storage capacity of 10 million gallons. A recent study identified the following needed improvements: remove and replace the wood roof; install a Hypalon lining; provide site improvements; provide skin improvements; and install a concrete Shear Wall System.

$3,109,378 or 100% of the total cost of this project is funded from current bond issue (including reimbursement).

734004 Pomerado Park Reservoir Upgrade

The Pomerado Park Tank has a capacity of 5.2 million gallons, and was constructed in 1969. This project includes safety, sanitation, appurtenance, exterior and interior surface, and structural improvements.

$37,079 or 8% of the total cost of this project is funded from current bond issue (including reimbursement).

732480 Pomerado Pipeline No. 2

This project consists of purchasing the existing Pomerado Pipeline, which runs between the Miramar Filtration Plant and the Tierrasanta area, from the San Diego County Water Authority (SDCWA). The Pomerado Pipeline, originally installed by the City in the late 1960's, was sold to the SDCWA to function as an imported water transmission pipeline in their aqueduct system. Subsequently, as a result of the installation of a metered connection to their filtered water aqueduct system, the City became totally reliant upon the SDCWA to supply the southern

reaches of the Miramar distribution system. Through a cooperative effort, both the City and the SDCWA have agreed to eliminate this reliance through the City's repurchase of this pipeline. The pipeline will be returned to its original function as a gravity supply from the Miramar Filtration Plant.

$1,938,563 or 66% of the total cost of this project is funded from current bond issue (including reimbursement).

733400 Potable Water Storage Recirculation

Eight existing potable water storage facilities of one-million gallon capacity or more will be equipped with a water recirculation system consisting of pumps and piping capable of exchanging the entire volume of the reservoir with water from an adjacent water main once every 10 days. The pumps will run continuously at a small flow rate to slowly exchange the entire volume of the reservoir. The reservoirs being considered for this project are: Redwood Village, Emerald Hills, University Heights, Point Lorna, La Jolla Exchange Place, La Jolla View, Bayview and Paradise Mesa. .

$265,730 or 16% of the total cost of this project is funded from current bond issue (including reimbursement).

733470 Program Management (Parsons)

Under this CIP number, the Water Department CIP Program team is augmented with engineers and other specialized personnel to complete the implementation of projects on schedule. Those services are being provided by Parsons Infrastructure and Technology, Inc. The personnel provided by Parsons are integrated into the CIP staff and provide engineering, scheduling, cost estimating and environmental compliance services.

$12,952,317 or 35% of the total cost of this project is funded from current bond issue (including reimbursement).

733410 Rancho Bernardo Pipeline No. 2

This project includes the installation of 1,700 linear feet of 48-inch diameter cement mortar lined & coated (CML&C) welded steel pipe along Scripps Ranch Boulevard, 2,800 linear feet of 48-inch diameter CML&C steel pipe along Mira Mesa Boulevard, 6,850 linear feet of 48-inch diameter CML&C steel pipe along Westview Parkway, 1,600 linear feet of 48-inch and 7,550 linear feet of 42-inch diameter CML&C steel pipe along Black Mountain Road, and 4,750 linear feet of 42-inch diameter CML&C steel pipe along Twin Trails Drive.

$1,354,898 or 10% of the total cost of this project is funded from current bond issue (including reimbursement).

733420 Rancho Bernardo Pump Plant No. 2

Construct a new 15 mgd pump station with a Total Dynamic Head of 200-feet.

$521,607 or 15% of the total cost of this project is funded from current bond issue (including reimbursement).

734280 Rancho Bernardo Reservoir Upgrade

This project includes the rehabilitation of the existing 10.1 million gallon, earth embankment, concrete-roofed, Rancho Bernardo reservoir. Inside dimensions of the reservoir at the control line are 322' x 250' x 26' deep and 216' x 144' at the base. Roof structure is pre-cast prestressed columns, beams and girders with a post-tensioned concrete roof slab. The lateral loads are carried by concrete shear walls with a plan view "H" shape. The floor is asphalt paved and butyl rubber lined. The perimeter stern wall is approximately 3 feet high.

The improvements to the reservoir include the removal of the damaged coating from most concrete surfaces including both sides of roof, beams, 72 columns and shear walls. Repair spalled concrete, remove the existing liner from floor and walls and replace with 86,000 square feet of Hypalon liner and geotech material. Two new 24-inch modulating valves will also be installed in an adjacent vault. Install new vault with 36-inch propeller flow meter, increase the thickness of the shear walls, and make repairs to various electrical equipment and appurtenances.

$495,616 or 16% of the total cost of this project is funded from current bond issue (including reimbursement).

733096 Redwood Village Standpipe – Phase I

Redwood Village Standpipe, Phase I (construction is complete).

The Redwood Village Standpipe is a circular steel standpipe constructed in 1964 with a capacity of 2 million gallons. The facility upgrade included seismic retrofit and general-improvement of the facility piping. This project was completed in early 1998.

$1,634,614 or 0% of the total cost of this project is funded from current bond issue (including reimbursement),

738472 Redwood Village Standpipe – Phase II

The Redwood Village Standpipe, Phase II project will incorporate additional work at the site, mainly related to replacing pipe and upgrading the pipe connection to the standpipe to avoid shearing off at the tank during an earthquake.

$0 or 0% of the total cost of this project is funded from current bond issue (including reimbursement).

799999 Replacement of Water Service Meters

This project consists of replacing 632 3-inch, 4-inch and 6-inch commercial meters with Metron-Farnier low flow water meters throughout the water system. Two hundred of the targeted meters had already been replaced by October 3, 1997. City forces will replace the

remaining 432 meters and install remote read devices. Backflow protection devices will be installed on the remaining flow meters.

$1,516,422 or 41% of the total cost of this project is funded from current bond issue (including reimbursement).

749252 San Carlos Reservoir Upgrade

The San Carlos Reservoir is a prestressed concrete tank with domed roof. It has a storage capacity of 5.0 million gallons, is 33 feet high by 160 feet diameter, end was constructed in 1963. This project includes removal of the existing interior coating and recoat; debris removal, seismic retrofit of wall to footing linkage; repair of loose concrete; upgrade access, paving, lighting, etc.; inspect/repair post tensioning and pre-stressing wire; and replace submerged metallic structures.

$91,155 or 34% of the total cost of this project is funded from current bond issue (including reimbursement).

732910 San Vicente Water Quality System

The depth and physical geometry of the San Vicente Reservoir cause it to stratify, creating layers of water with different temperatures. The lower depths are typically being cold and low in oxygen. This project is being evaluated using completed studies and available information, and will address the ultimate use of the lake itself which includes the possible introduction of reclaimed water. Depending on the final decision a hypolimnetic aeration system may be installed to improve the water quality for treatment in the water treatment plants.

$328,603 or 76% of the total cost of this project is funded from current bond issue (including reimbursement).

709210 Scripps Poway Parkway Subsystem

The Scripps Poway Parkway Subsystem consists of approximately 10,000 linear feet of 18-inch pipeline and a booster pump station located near its western end, that will convey Title 22 tertiary effluent. Preliminary alignment for this project is described as follows: commencing at a tee connection east of the intersection of Scripps Poway Parkway and Interstate 15 (the terminus of Reclaimed Water Distribution System Package V), the pipeline runs easterly along Scripps Poway Parkway to a point approximately 4,000 feet west of the City of Poway/San Diego boundary, where the pipeline will connect to an existing 10-inch reclaimed waterline.

$7,506,516 or 56% of the total cost of this project is funded from current bond issue (including reimbursement).

709180 Scripps Ranch Blvd / I-15 Subsystem

This system will serve the reclamation needs of Scripps Ranch and Interstate 15 corridor areas and ultimately connect to pipelines serving users to the north. Preliminary alignment for the approximately 15,000 feet of 30-inch pipeline is described as follows: commencing at the

Miramar Storage Tank, the pipeline runs along Scripps Ranch Boulevard to Erma Road, where it turns west and continues along Erma Road to the street terminus. The pipeline continues north through the vicinity of the old Frontage Road on the east side of Interstate 15, terminating in a tee connection east of the intersection of Interstate 15 and Scripps Poway Parkway/Mercy Road.

$6,414,913 or 72% of the total cost of this project is funded from current bond issue (including reimbursement).

734003 Scripps Ranch Reservoir

This project includes the removal of lead grout paint, repainting the structure and providing general improvements to the reservoir and site.

$982,324 or 96% of the total cost of this project is funded from current bond issue (including reimbursement).

73246B SD 18 Flow Control Facility

City funds will be used to support the design and construction of the Mid-City Meter Facility (SD-18). This facility will be designed, constructed, owned and operated by the San Diego County Water Authority (SDCWA). Completion of SD-18 will enable treated City water from the Alvarado Treatment Plant (placed in the SDCWA aqueduct through pump station SD-17) to flow into the new Mid-City Pipeline, Flows up to 93 cfs will be taken out of the SDCWA aqueduct and delivered to the new Mid-City Pipeline.

$2,239,316 or 100% of the total cost of this project is funded from current bond issue (including reimbursement).

732720 Soledad Reservoir

The existing Soledad reservoir, a 1.5-million gallon, concrete reservoir built in 1958, it is in a deteriorated condition, and is in danger of failure. The reservoir is 113 feet in diameter, 19'-9" high with a concrete roof. The project is the rehabilitation of the reservoir by lining the interior walls and floors with steel plate.

$1,642,635 or 97% of the total cost of this project is funded from current bond issue (including reimbursement).

709340 Sorrento Valley Subsystem

This project package involves a portion of the RWD system serving users in the southwest Mira Mesa and northwest Miramar portions of the Northern Service Area. This package consists of two segments with a total length of approximately 21,000 linear feet of 10- to 18-inch diameter pipeline. The preliminary alignment for the first segment is as follows: commencing at a tee connection located at Miramar Road and Production Ave (Package 2), the pipeline heads north to Carroll Road, then west along Carroll Road, then along Carroll Canyon Road to the vicinity of the Youngstown Way Intersection. The preliminary alignment for the second segment is as

follows: commencing at a tee connection at Carroll Road and Fenton Road, the pipeline heeds east along Fenton Road for approximately 8,000 linear feet.

$5,410,376 or 22% of the total cost of this project is funded from current bond issue (including reimbursement).

709101 ***Sorrento Valley Water Main Replacement***

This project has been completed and is included in the bond program for reimbursement.

$1,905,148 or 34% of the total cost of this project is funded from current bond issue (including reimbursement).

732490 ***South San Diego Pipeline No. 2***

This project consists of the installation of approximately 24,300 linear feet of 42-inch diameter pipeline from the Coronado wye (east of the South San Diego Reservoir) to Interstate 805 and Palm Avenue in the South San Diego/Otay Mesa water service area. This project will be designed and constructed through a participation agreement with TMP Homes, Inc.,

$13,644,840 or 92% of the total cost of this project is funded from current bond issue (including reimbursement).

733440 ***South San Diego Reservoir No. 2***

This project will consist of constructing a new 12.7 million-gallon reservoir located at the site of the existing South San Diego Reservoir and serving the 490 pressure zone.

$653,520 or 11% of the total cost of this project is funded from current bond issue (including reimbursement).

749254 ***South San Diego Reservoir Upgrade***

This project includes the removal of 85,235 square feet of existing lead based interior coating and replace with high solids epoxy coating system. Replacement of one column and minor repairs on other columns. Replacement of 400 linear feet of 0.75 inch tie rods, and installation of a concrete dividing wall.

$327,581 or 10% of the total cost of this project is funded from current bond issue (including reimbursement).

733080 ***Telem Control Sys – SCADA Phase I***

Install centralized state-of-the-art electronic monitoring and control facilities for the water storage, transmission, and system.

$1,472,285 or 82% of the total cost of this project is funded from current bond issue (including reimbursement).

733081 Telem Control Sys – SCADA – Phase II

Install centralized state-of-the-art monitoring and control facilities for the water storage and transmission system. This Phase is the final step to install the complete facilities for telemetry control of the entire system.

$522,233 or 39% of the total cost of this project is funded from current bond issue (including reimbursement).

733290 Tierrasanta Norte Water Pump Plant

This project includes the installation of four end-suction centrifugal pumps inside the existing, unused SD #16 flow control facility. The existing building is 18-feet by 17-feet 8-inches by 10-feet 5.5-inches high. One pump will be a 25 hp (1,200 gpm at 65 feet TDH) and three pumps are 50 hp (2,150 gpm at 65 feet TDH). Roof hatches will be added to the existing building for future installation and removal of the pumps and motors.

$0 or 0% of the total cost of this project is funded from current bond issue (including reimbursement).

709270 University City Subsystem

This package consists of four segments with a total length of approximately 23,400 linear feet of 6- to 24-inch diameter pipeline. The preliminary alignment for the first segment is as follows: commencing at the Executive Drive and Regents Road tee connection, the pipeline runs south along Regents Road, then east along Arriba Street, then north along Cargill Avenue, and terminates at the intersection of Cargill Avenue and Camino Ticino. The preliminary alignment for the second segment is as follows: commencing at the Regents Road and Nobel Drive tee connection (hook-up from the second segment), the pipeline heads west along Nobel Drive and terminates at the intersection of Nobel Drive and Lebon Drive. Preliminary alignment for the third segment is as follows: commencing at the tee connection at the intersection of Regents Road and Nobel Drive (Hook-up from the first segment), the pipeline heads east along Nobel Drive and terminates at its terminus. The preliminary alignment for the fourth segment is as follows: commencing at the terminus of the turn out from the NSPF/RI 52 pipeline (Package III) at the end of Governor Drive, the pipeline runs west under I-805, then along Governor Drive to Erlanger Street, then south along Erlanger Street and terminates at the western end of Erlanger Street where it will connect to the State Route irrigation system.

$7,029,883 or 47% of the total cost of this project is funded from current bond issue (including reimbursement).

734001 University Heights Elevated Tank

The University Heights Elevated Tank is located at the same location as the University Heights reservoir. The elevated tank has not been used for a number of years. Due to it's historical significance, it is being considered for nomination as a historical monument. If it is named as a historical monument, then it will receive seismic retrofitting and general upgrades. If it is not named as a historical monument, then it will be demolished.

$0 or 0% of the total cost of this project is funded from current bond issue (including reimbursement).

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GOVERNMENT CODE - GOV

TITLE 2. GOVERNMENT OF THE STATE OF CALIFORNIA [8000 - 22980] *(Title 2 enacted by Stats. 1943, Ch. 134.)*

DIVISION 4. FISCAL AFFAIRS [16100 - 17700] *(Division 4 added by Stats. 1945, Ch. 119.)*

PART 7. STATE-MANDATED LOCAL COSTS [17500 - 17630] *(Part 7 added by Stats. 1984, Ch. 1459, Sec. 1.)*

CHAPTER 4. Identification and Payment of Costs Mandated by the State [17550 - 17617] *(Chapter 4 added by Stats. 1984, Ch. 1459, Sec. 1.)*

ARTICLE 1. Commission Procedure [17550 - 17571] *(Article 1 added by Stats. 1984, Ch. 1459, Sec. 1.)*

17550. Reimbursement of local agencies and school districts for costs mandated by the state shall be provided pursuant to this chapter.

(Added by Stats. 1984, Ch. 1459, Sec. 1.)

17551. (a) The commission, pursuant to the provisions of this chapter, shall hear and decide upon a claim by a local agency or school district that the local agency or school district is entitled to be reimbursed by the state for costs mandated by the state as required by Section 6 of Article XIII B of the California Constitution.

(b) Except as provided in Sections 17573 and 17574, commission review of claims may be had pursuant to subdivision (a) only if the test claim is filed within the time limits specified in this section.

(c) Local agency and school district test claims shall be filed not later than 12 months following the effective date of a statute or executive order, or within 12 months of incurring increased costs as a result of a statute or executive order, whichever is later.

(d) The commission, pursuant to the provisions of this chapter, shall hear and decide upon a claim by a local agency or school district filed on or after January 1, 1985, that the Controller has incorrectly reduced payments to the local agency or school district pursuant to paragraph (2) of subdivision (d) of Section 17561.

(Amended by Stats. 2007, Ch. 329, Sec. 3. Effective January 1, 2008.)

17552. This chapter shall provide the sole and exclusive procedure by which a local agency or school district may claim reimbursement for costs mandated by the state as required by Section 6 of Article XIII B of the California Constitution.

(Amended by Stats. 1986, Ch. 879, Sec. 3.)

17553. (a) The commission shall adopt procedures for receiving claims filed pursuant to this article and Section 17574 and for providing a hearing on those claims. The procedures shall do all of the following:

(1) Provide for presentation of evidence by the claimant, the Department of Finance, and any other affected department or agency, and any other interested person.

(2) Ensure that a statewide cost estimate is adopted within 12 months after receipt of a test claim, when a determination is made by the commission that a mandate exists. This deadline may be extended for up to six months upon the request of either the claimant or the commission.

(3) Permit the hearing of a claim to be postponed at the request of the claimant, without prejudice, until the next scheduled hearing.

(b) All test claims shall be filed on a form prescribed by the commission and shall contain at least the following elements and documents:

(1) A written narrative that identifies the specific sections of statutes or executive orders and the effective date and register number of regulations alleged to contain a mandate and shall include all of the following:

(A) A detailed description of the new activities and costs that arise from the mandate.

(B) A detailed description of existing activities and costs that are modified by the mandate.

(C) The actual increased costs incurred by the claimant during the fiscal year for which the claim was filed to implement the alleged mandate.

(D) The actual or estimated annual costs that will be incurred by the claimant to implement the alleged mandate during the fiscal year immediately following the fiscal year for which the claim was filed.

(E) A statewide cost estimate of increased costs that all local agencies or school districts will incur to implement the alleged mandate during the fiscal year immediately following the fiscal year for which the claim was filed.

(F) Identification of all of the following:

(i) Dedicated state funds appropriated for this program.

(ii) Dedicated federal funds appropriated for this program.

(iii) Other nonlocal agency funds dedicated for this program.

(iv) The local agency's general purpose funds for this program.

(v) Fee authority to offset the costs of this program.

(G) Identification of prior mandate determinations made by the Commission on State Mandates or a predecessor agency that may be related to the alleged mandate.

(H) Identification of a legislatively determined mandate pursuant to Section 17573 that is on the same statute or executive order.

(2) The written narrative shall be supported with declarations under penalty of perjury, based on the declarant's personal knowledge, information, or belief, and signed by persons who are authorized and competent to do so, as follows:

(A) Declarations of actual or estimated increased costs that will be incurred by the claimant to implement the alleged mandate.

(B) Declarations identifying all local, state, or federal funds, or fee authority that may be used to offset the increased costs that will be incurred by the claimant to implement the alleged mandate, including direct and indirect costs.

(C) Declarations describing new activities performed to implement specified provisions of the new statute or executive order alleged to impose a reimbursable state-mandated program. Specific references shall be made to chapters, articles, sections, or page numbers alleged to impose a reimbursable state-mandated program.

(D) If applicable, declarations describing the period of reimbursement and payments received for full reimbursement of costs for a legislatively determined mandate pursuant to Section 17573, and the authority to file a test claim pursuant to paragraph (1) of subdivision (c) of Section 17574.

(3) (A) The written narrative shall be supported with copies of all of the following:

(i) The test claim statute that includes the bill number or executive order, alleged to impose or impact a mandate.

(ii) Relevant portions of state constitutional provisions, federal statutes, and executive orders that may impact the alleged mandate.

(iii) Administrative decisions and court decisions cited in the narrative.

(B) State mandate determinations made by the Commission on State Mandates or a predecessor agency and published court decisions on state mandate determinations made by the Commission on State Mandates are exempt from this requirement.

(4) A test claim shall be signed at the end of the document, under penalty of perjury by the claimant or its authorized representative, with the declaration that the test claim is true and complete to the best of the declarant's personal knowledge, information, or belief. The date of signing, the declarant's title, address, telephone number, facsimile machine telephone number, and electronic mail address shall be included.

(c) If a completed test claim is not received by the commission within 30 calendar days from the date that an incomplete test claim was returned by the commission, the original test claim filing date may be disallowed, and a new test claim may be accepted on the same statute or executive order.

(d) In addition, the commission shall determine whether an incorrect reduction claim is complete within 10 days after the date that the incorrect reduction claim is filed. If the commission determines that an incorrect reduction claim is not complete, the commission shall notify the local agency and school district that filed the claim stating the reasons that the claim is not complete. The local agency or school district shall have 30 days to complete the

claim. The commission shall serve a copy of the complete incorrect reduction claim on the Controller. The Controller shall have no more than 90 days after the date the claim is delivered or mailed to file any rebuttal to an incorrect reduction claim. The failure of the Controller to file a rebuttal to an incorrect reduction claim shall not serve to delay the consideration of the claim by the commission.

(Amended by Stats. 2007, Ch. 329, Sec. 4. Effective January 1, 2008.)

17554. With the agreement of all parties to the claim, the commission may waive the application of any procedural requirement imposed by this chapter or pursuant to Section 17553. The authority granted by this section includes the consolidation of claims and the shortening of time periods.

(Amended by Stats. 2004, Ch. 890, Sec. 13. Effective January 1, 2005.)

17555. (a) Not later than 30 days after hearing and deciding upon a test claim pursuant to subdivision (a) of Section 17551, and determining the amount to be subvened to local agencies and school districts for reimbursement pursuant to subdivision (a) of Section 17557, the commission shall notify the appropriate Senate and Assembly policy and fiscal committees, the Legislative Analyst, the Department of Finance, and the Controller of that decision.

(b) For purposes of this section, the "appropriate policy committee" means the policy committee that has jurisdiction over the subject matter of the statute, regulation, or executive order, and in which bills relating to that subject matter would have been heard.

(Amended by Stats. 2007, Ch. 179, Sec. 13. Effective August 24, 2007.)

17556. The commission shall not find costs mandated by the state, as defined in Section 17514, in any claim submitted by a local agency or school district, if, after a hearing, the commission finds any one of the following:

(a) The claim is submitted by a local agency or school district that requests or previously requested legislative authority for that local agency or school district to implement the program specified in the statute, and that statute imposes costs upon that local agency or school district requesting the legislative authority. A resolution from the governing body or a letter from a delegated representative of the governing body of a local agency or school district that requests authorization for that local agency or school district to implement a given program shall constitute a request within the meaning of this subdivision. This subdivision applies regardless of whether the resolution from the governing body or a letter from a delegated representative of the governing body was adopted or sent prior to or after the date on which the statute or executive order was enacted or issued.

(b) The statute or executive order affirmed for the state a mandate that has been declared existing law or regulation by action of the courts. This subdivision applies regardless of whether the action of the courts occurred prior to or after the date on which the statute or executive order was enacted or issued.

(c) The statute or executive order imposes a requirement that is mandated by a federal law or regulation and results in costs mandated by the federal government, unless the statute or executive order mandates costs that exceed the mandate in that federal law or regulation. This subdivision applies regardless of whether the federal law or regulation was enacted or adopted prior to or after the date on which the state statute or executive order was enacted or issued.

(d) The local agency or school district has the authority to levy service charges, fees, or assessments sufficient to pay for the mandated program or increased level of service. This subdivision applies regardless of whether the authority to levy charges, fees, or assessments was enacted or adopted prior to or after the date on which the statute or executive order was enacted or issued.

(e) The statute, executive order, or an appropriation in a Budget Act or other bill provides for offsetting savings to local agencies or school districts that result in no net costs to the local agencies or school districts, or includes additional revenue that was specifically intended to fund the costs of the state mandate in an amount sufficient to fund the cost of the state mandate. This subdivision applies regardless of whether a statute, executive order, or appropriation in the Budget Act or other bill that either provides for offsetting savings that result in no net costs or provides for additional revenue specifically intended to fund the costs of the state mandate in an amount sufficient to fund the cost of the state mandate was enacted or adopted prior to or after the date on which the statute or executive order was enacted or issued.

(f) The statute or executive order imposes duties that are necessary to implement, or are expressly included in, a ballot measure approved by the voters in a statewide or local election. This subdivision applies regardless of whether the statute or executive order was enacted or adopted before or after the date on which the ballot measure was approved by the voters.

(g) The statute created a new crime or infraction, eliminated a crime or infraction, or changed the penalty for a crime or infraction, but only for that portion of the statute relating directly to the enforcement of the crime or infraction.

(Amended by Stats. 2010, Ch. 719, Sec. 31. (SB 856) Effective October 19, 2010.)

17557. (a) If the commission determines there are costs mandated by the state pursuant to Section 17551, it shall determine the amount to be subvened to local agencies and school districts for reimbursement. In so doing it shall adopt parameters and guidelines for reimbursement of any claims relating to the statute or executive order. The successful test claimants shall submit proposed parameters and guidelines within 30 days of adoption of a statement of decision on a test claim. The proposed parameters and guidelines may include proposed reimbursable activities that are reasonably necessary for the performance of the state-mandated program. At the request of a successful test claimant, the commission may provide for one or more extensions of this 30-day period at any time prior to its adoption of the parameters and guidelines. If proposed parameters and guidelines are not submitted within the 30-day period and the commission has not granted an extension, then the commission shall notify the test claimant that the amount of reimbursement the test claimant is entitled to for the first 12 months of incurred costs will be reduced by 20 percent, unless the test claimant can demonstrate to the commission why an extension of the 30-day period is justified.

(b) In adopting parameters and guidelines, the commission may adopt a reasonable reimbursement methodology.

(c) The parameters and guidelines adopted by the commission shall specify the fiscal years for which local agencies and school districts shall be reimbursed for costs incurred. However, the commission shall not specify in the parameters and guidelines any fiscal year for which payment could be provided in the annual Budget Act.

(d) (1) A local agency, school district, or the state may file a written request with the commission to amend the parameters or guidelines. The commission may, after public notice and hearing, amend the parameters and guidelines. A parameters and guidelines amendment submitted within 90 days of the claiming deadline for initial claims, as specified in the claiming instructions pursuant to Section 17561, shall apply to all years eligible for reimbursement as defined in the original parameters and guidelines. A parameters and guidelines amendment filed more than 90 days after the claiming deadline for initial claims, as specified in the claiming instructions pursuant to Section 17561, and on or before the claiming deadline following a fiscal year, shall establish reimbursement eligibility for that fiscal year.

(2) For purposes of this subdivision, the request to amend parameters and guidelines may be filed to make any of the following changes to parameters and guidelines, consistent with the statement of decision:

(A) Delete any reimbursable activity that has been repealed by statute or executive order after the adoption of the original or last amended parameters and guidelines.

(B) Update offsetting revenues and offsetting savings that apply to the mandated program and do not require a new legal finding that there are no costs mandated by the state pursuant to subdivision (e) of Section 17556.

(C) Include a reasonable reimbursement methodology for all or some of the reimbursable activities.

(D) Clarify what constitutes reimbursable activities.

(E) Add new reimbursable activities that are reasonably necessary for the performance of the state-mandated program.

(F) Define what activities are not reimbursable.

(G) Consolidate the parameters and guidelines for two or more programs.

(H) Amend the boilerplate language. For purposes of this section, "boilerplate language" means the language in the parameters and guidelines that is not unique to the state-mandated program that is the subject of the parameters and guidelines. Any amendment that does not increase or decrease reimbursable costs shall limit the eligible filing period commencing with the fiscal year in which the amended parameters and guidelines were adopted.

(e) A test claim shall be submitted on or before June 30 following a fiscal year in order to establish eligibility for reimbursement for that fiscal year. The claimant may thereafter amend the test claim at any time, but before the test claim is set for a hearing, without affecting the original filing date as long as the amendment substantially relates to the original test claim.

(f) In adopting parameters and guidelines, the commission shall consult with the Department of Finance, the affected state agency, the Controller, the fiscal and policy committees of the Assembly and Senate, the Legislative Analyst, and the claimants to consider a reasonable reimbursement methodology that balances accuracy with simplicity.

(Amended by Stats. 2011, Ch. 144, Sec. 1. (SB 112) Effective January 1, 2012.)

17557.1. (a) Notwithstanding any other provision of this part, within 30 days of the commission's adoption of a statement of decision on a test claim, the test claimant and the Department of Finance may notify the executive director of the commission in writing of their intent to follow the process described in this section to develop a reasonable reimbursement methodology and statewide estimate of costs for the initial claiming period and budget year for reimbursement of costs mandated by the state in accordance with the statement of decision. The letter of intent shall include the date on which the test claimant and the Department of Finance will submit a plan to ensure that costs from a representative sample of eligible local agency or school district claimants are considered in the development of a reasonable reimbursement methodology.

(b) This plan shall also include all of the following information:

(1) The date on which the test claimant and Department of Finance will provide to the executive director an informational update regarding their progress in developing the reasonable reimbursement methodology.

(2) The date on which the test claimant and Department of Finance will submit to the executive director the draft reasonable reimbursement methodology and proposed statewide estimate of costs for the initial claiming period and budget year. This date shall be no later than 180 days after the date the letter of intent is sent by the test claimant and Department of Finance to the executive director.

(c) At the request of the test claimant and Department of Finance, the executive director may provide for up to four extensions of this 180-day period.

(d) The test claimant or Department of Finance may notify the executive director at any time that the claimant or Department of Finance no longer intends to develop a reasonable reimbursement methodology pursuant to this section. In this case, paragraph (2) of subdivision (a) of Section 17553 and Section 17557 shall apply to the test claim. Upon receipt of this notification, the executive director shall notify the test claimant of the duty to submit proposed parameters and guidelines within 30 days under subdivision (a) of Section 17557.

(Added by Stats. 2007, Ch. 329, Sec. 5. Effective January 1, 2008.)

17557.2. (a) A reasonable reimbursement methodology developed pursuant to Section 17557.1 or a joint request for early termination of a reasonable reimbursement methodology shall have broad support from a wide range of local agencies or school districts. The test claimant and Department of Finance may demonstrate broad support from a wide range of local agencies or school districts in different ways, including, but not limited to, obtaining endorsement by one or more statewide associations of local agencies or school districts and securing letters of approval from local agencies or school districts.

(b) No later than 60 days before a commission hearing, the test claimant and Department of Finance shall submit to the commission a joint proposal that shall include all of the following:

(1) The draft reasonable reimbursement methodology.

(2) The proposed statewide estimate of costs for the initial claiming period and budget year.

(3) A description of the steps the test claimant and the Department of Finance undertook to determine the level of support by local agencies or school districts for the draft reasonable reimbursement methodology.

(4) An agreement that the reasonable reimbursement methodology developed and approved under this section shall be in effect for a period of five years unless a different term is approved by the commission, or upon submission to the commission of a letter indicating the Department of Finance and test claimant's joint interest in early termination of the reasonable reimbursement methodology.

(5) An agreement that, at the conclusion of the period established in paragraph (4), the Department of Finance and the test claimant will consider jointly whether amendments to the methodology are necessary.

(c) The commission shall approve the draft reasonable reimbursement methodology if review of the information submitted pursuant to Section 17557.1 and subdivision (b) of this section demonstrates that the draft reasonable reimbursement methodology and statewide estimate of costs for the initial claiming period and budget year have been developed in accordance with Section 17557.1 and meet the requirements of subdivision (a). The commission thereafter shall adopt the proposed statewide estimate of costs for the initial claiming period and budget year. Statewide cost estimates adopted under this section shall be included in the report to the Legislature required under Section 17600 and shall be reported by the commission to the appropriate Senate and Assembly policy and fiscal committees, the Legislative Analyst, and the Department of Finance not later than 30 days after adoption.

(d) Unless amendments are proposed pursuant to this subdivision, the reasonable reimbursement methodology approved by the commission pursuant to this section shall expire after either five years, any other term approved by the commission, or upon submission to the commission of a letter indicating the Department of Finance's and test claimant's joint interest in early termination of the reasonable reimbursement methodology.

(e) The commission shall approve a joint request for early termination of a reasonable reimbursement methodology if the request meets the requirements of subdivision (a). If the commission approves a joint request for early termination, the commission shall notify the test claimant of the duty to submit proposed parameters and guidelines to the commission pursuant to subdivision (a) of Section 17557.

(f) At least one year before the expiration of a reasonable reimbursement methodology, the commission shall notify the Department of Finance and the test claimant that they may do one of the following:

(1) Jointly propose amendments to the reasonable reimbursement methodology by submitting the information described in paragraphs (1), (3), and (4) of subdivision (b), and providing an estimate of the mandate's annual cost for the subsequent budget year.

(2) Jointly propose that the reasonable reimbursement methodology remain in effect.

(3) Allow the reasonable reimbursement methodology to expire and notify the commission that the test claimant will submit proposed parameters and guidelines to the commission pursuant to subdivision (a) of Section 17557 to replace the reasonable reimbursement methodology.

(g) The commission shall either approve the continuation of the reasonable reimbursement methodology or approve the jointly proposed amendments to the reasonable reimbursement methodology if the information submitted in accordance with paragraph (1) of subdivision (d) demonstrates that the proposed amendments were developed in accordance with Section 17557.1 and meet the requirements of subdivision (a) of this section.

(Added by Stats. 2007, Ch. 329, Sec. 6. Effective January 1, 2008.)

17558. (a) The commission shall submit the adopted parameters and guidelines or a reasonable reimbursement methodology approved pursuant to Section 17557.2 to the Controller. As used in this chapter, a "reasonable reimbursement methodology" approved pursuant to Section 17557.2 includes all amendments to the reasonable reimbursement methodology. When the Legislature declares a legislatively determined mandate in accordance with Section 17573 in which claiming instructions are necessary, the Department of Finance shall notify the Controller.

(b) Not later than 90 days after receiving the adopted parameters and guidelines, a reasonable reimbursement methodology from the commission, or notification from the Department of Finance, the Controller shall issue claiming instructions for each mandate that requires state reimbursement, to assist local agencies and school districts in claiming costs to be reimbursed. In preparing claiming instructions, the Controller shall request assistance from the Department of Finance and may request the assistance of other state agencies. The claiming instructions shall be derived from the test claim decision and the adopted parameters and guidelines, reasonable reimbursement methodology, or statute declaring a legislatively determined mandate.

(c) The Controller shall, within 90 days after receiving amended parameters and guidelines, an amended reasonable reimbursement methodology from the commission or other information necessitating a revision of the claiming instructions, prepare and issue revised claiming instructions for mandates that require state reimbursement that have been established by commission action pursuant to Section 17557, Section 17557.2, or after any decision or order of the commission pursuant to Section 17559, or after any action by the Legislature pursuant to Section 17573. In preparing revised claiming instructions, the Controller may request the assistance of other state agencies.

(Amended by Stats. 2011, Ch. 144, Sec. 2. (SB 112) Effective January 1, 2012.)

17558.5. (a) A reimbursement claim for actual costs filed by a local agency or school district pursuant to this chapter is subject to the initiation of an audit by the Controller no later than three years after the date that the actual reimbursement claim is filed or last amended, whichever is later. However, if no funds are appropriated or no payment is made to a claimant for the program for the fiscal year for which the claim is filed, the time for the Controller to initiate an audit shall commence to run from the date of initial payment of the claim. In any case, an audit shall be completed not later than two years after the date that the audit is commenced.

(b) The Controller may conduct a field review of any claim after the claim has been submitted, prior to the reimbursement of the claim.

(c) The Controller shall notify the claimant in writing within 30 days after issuance of a remittance advice of any adjustment to a claim for reimbursement that results from an audit or review. The notification shall specify the claim components adjusted, the amounts adjusted, interest charges on claims adjusted to reduce the overall reimbursement to the local agency or school district, and the reason for the adjustment. Remittance advices and other notices of payment action shall not constitute notice of adjustment from an audit or review.

(d) The interest rate charged by the Controller on reduced claims shall be set at the Pooled Money Investment Account rate and shall be imposed on the dollar amount of the overpaid claim from the time the claim was paid

until overpayment is satisfied.

(e) Nothing in this section shall be construed to limit the adjustment of payments when inaccuracies are determined to be the result of the intent to defraud, or when a delay in the completion of an audit is the result of willful acts by the claimant or inability to reach agreement on terms of final settlement.

(Amended by Stats. 2004, Ch. 890, Sec. 18. Effective January 1, 2005.)

17558.6. It is the intent of the Legislature that the Commission on State Mandates review its process by which local agencies may appeal the reduction of reimbursement claims on the basis that the reduction is incorrect in order to provide for a more expeditious and less costly process.

(Added by Stats. 1998, Ch. 681, Sec. 3. Effective September 22, 1998.)

17558.7. (a) If the Controller reduces a claim approved by the commission, the claimant may file with the commission an incorrect reduction claim pursuant to regulations adopted by the commission.

(b) A claimant eligible to file an incorrect reduction claim may file a consolidated incorrect reduction claim on behalf of other claimants whose claims for reimbursement under the same mandate are alleged to have been incorrectly reduced if all of the following apply:

(1) The method, act, or practice that the claimant alleges led to the reduction has led to similar reductions of other parties' claims, and all of the claims involve common questions of law or fact.

(2) The common questions of law or fact among the claims predominate over any matter affecting only an individual claim.

(3) The consolidation of similar claims by individual claimants would result in consistent decisionmaking by the commission.

(4) The claimant filing the consolidated claim would fairly and adequately protect the interests of the other claimants.

(c) A claimant that seeks to file a consolidated incorrect reduction claim shall, at the time it files an incorrect reduction claim, on a form provided by the commission, notify the commission of its intent to file a consolidated incorrect reduction claim.

(d) Within 10 days after receipt of an incorrect reduction claim and notice of intent to consolidate, the commission shall request that the Controller provide the commission and the claimant with a list of claimants for whom the Controller has reduced similar claims under the same mandate. Upon receipt of this list from the Controller, the claimant may notify the claimants on the list and other interested parties of its intent to file a consolidated incorrect reduction claim.

(e) Within 30 days of receipt of the notice of intent to consolidate from the original claimant, on a form provided by the commission, any other eligible claimant shall file with the commission its notice of intent to join the consolidated incorrect reduction claim, which shall include a copy of the remittance advice or other notice from the Controller of the claim reduction, and one copy of the reimbursement claims for which an incorrect reduction is alleged.

(f) The commission shall notify each claimant that files an intent to join the consolidated incorrect reduction claim that it may opt out of the consolidated claim and not be bound by any determination made on that consolidated claim. A claimant may opt out of a consolidated claim no later than 15 days after the state agency files comments on the consolidated claim. A claimant that opts out of the consolidated claim, in order to preserve its right to challenge a reduction made by the Controller on that same mandate, shall file an individual incorrect reduction claim pursuant to commission requirements, no later than one year after opting out or within the statute of limitations under the commission's regulations.

(g) The commission shall adopt regulations establishing procedures for receiving a consolidated incorrect reduction claim pursuant to this section and for providing a hearing on a consolidated claim.

(Added by Stats. 2006, Ch. 168, Sec. 1. Effective January 1, 2007.)

17558.8. (a) The commission may, on its own initiative, consolidate incorrect reduction claims filed with the commission by different claimants under the same mandate if all of the following apply:

(1) The same method, act, or practice is alleged to have led to the reduction in each claim, and all of the claims involve common questions of law or fact.

(2) The common questions of law or fact among the claims predominate over any matter affecting only an individual claim.

(3) The consolidation of similar claims by individual claimants would result in consistent decisionmaking by the commission.

(b) The commission shall adopt regulations establishing procedures for consolidation of incorrect reduction claims pursuant to this section and for providing a hearing on a consolidated claim.

(Amended by Stats. 2007, Ch. 130, Sec. 119. Effective January 1, 2008.)

17559. (a) The commission may order a reconsideration of all or part of a test claim or incorrect reduction claim on petition of any party. The power to order a reconsideration or amend a test claim decision shall expire 30 days after the statement of decision is delivered or mailed to the claimant. If additional time is needed to evaluate a petition for reconsideration filed prior to the expiration of the 30-day period, the commission may grant a stay of that expiration for no more than 30 days, solely for the purpose of considering the petition. If no action is taken on a petition within the time allowed for ordering reconsideration, the petition shall be deemed denied.

(b) A claimant or the state may commence a proceeding in accordance with the provisions of Section 1094.5 of the Code of Civil Procedure to set aside a decision of the commission on the ground that the commission's decision is not supported by substantial evidence. The court may order the commission to hold another hearing regarding the claim and may direct the commission on what basis the claim is to receive a rehearing.

(Amended by Stats. 1999, Ch. 643, Sec. 4. Effective January 1, 2000.)

17560. Reimbursement for state-mandated costs may be claimed as follows:

(a) A local agency or school district may, by February 15 following the fiscal year in which costs are incurred, file an annual reimbursement claim that details the costs actually incurred for that fiscal year.

(b) In the event revised claiming instructions are issued by the Controller pursuant to subdivision (c) of Section 17558 between November 15 and February 15, a local agency or school district filing an annual reimbursement claim shall have 120 days following the issuance date of the revised claiming instructions to file a claim.

(Amended by Stats. 2008, 3rd Ex. Sess., Ch. 6, Sec. 3. Effective February 16, 2008.)

17561. (a) The state shall reimburse each local agency and school district for all "costs mandated by the state," as defined in Section 17514 and for legislatively determined mandates in accordance with Section 17573.

(b) (1) For the initial fiscal year during which these costs are incurred, reimbursement funds shall be provided as follows:

(A) Any statute mandating these costs shall provide an appropriation therefor.

(B) Any executive order mandating these costs shall be accompanied by a bill appropriating the funds therefor, or alternatively, an appropriation for these costs shall be included in the Budget Bill for the next succeeding fiscal year. The executive order shall cite that item of appropriation in the Budget Bill or that appropriation in any other bill that is intended to serve as the source from which the Controller may pay the claims of local agencies and school districts.

(2) In subsequent fiscal years appropriations for these costs shall be included in the annual Governor's Budget and in the accompanying Budget Bill. In addition, appropriations to reimburse local agencies and school districts for continuing costs resulting from chaptered bills or executive orders for which claims have been awarded pursuant to subdivision (a) of Section 17551 shall be included in the annual Governor's Budget and in the accompanying Budget Bill.

(c) The amount appropriated to reimburse local agencies and school districts for costs mandated by the state shall be appropriated to the Controller for disbursement.

(d) The Controller shall pay any eligible claim pursuant to this section by October 15 or 60 days after the date the appropriation for the claim is effective, whichever is later. The Controller shall disburse reimbursement funds to local agencies or school districts if the costs of these mandates are not payable to state agencies, or to state agencies that would otherwise collect the costs of these mandates from local agencies or school districts in the form of fees, premiums, or payments. When disbursing reimbursement funds to local agencies or school districts, the Controller shall disburse them as follows:

(1) For initial reimbursement claims, the Controller shall issue claiming instructions to the relevant local agencies and school districts pursuant to Section 17558. Issuance of the claiming instructions shall constitute a notice of the right of the local agencies and school districts to file reimbursement claims, based upon parameters and guidelines adopted by the commission, the reasonable reimbursement methodology approved by the commission pursuant to

Section 17557.2, or statutory declaration of a legislatively determined mandate and reimbursement methodology pursuant to Section 17573.

(A) When claiming instructions are issued by the Controller pursuant to Section 17558 for each mandate determined pursuant to Section 17551 or 17573 that requires state reimbursement, each local agency or school district to which the mandate is applicable shall submit claims for initial fiscal year costs to the Controller within 120 days of the issuance date for the claiming instructions.

(B) When the commission is requested to review the claiming instructions pursuant to Section 17571, each local agency or school district to which the mandate is applicable shall submit a claim for reimbursement within 120 days after the commission reviews the claiming instructions for reimbursement issued by the Controller.

(C) If the local agency or school district does not submit a claim for reimbursement within the 120-day period, or submits a claim pursuant to revised claiming instructions, it may submit its claim for reimbursement as specified in Section 17560. The Controller shall pay these claims from the funds appropriated therefor, except the Controller may take either of the following actions:

(i) Audit the records of any local agency or school district to verify the actual amount of the mandated costs, the application of a reasonable reimbursement methodology, or application of a legislatively enacted reimbursement methodology under Section 17573.

(ii) Reduce any claim that the Controller determines is excessive or unreasonable.

(2) In subsequent fiscal years each local agency or school district shall submit its claims as specified in Section 17560. The Controller shall pay these claims from funds appropriated therefor except as follows:

(A) The Controller may audit any of the following:

(i) Records of any local agency or school district to verify the actual amount of the mandated costs.

(ii) The application of a reasonable reimbursement methodology.

(iii) The application of a legislatively enacted reimbursement methodology under Section 17573.

(B) The Controller may reduce any claim that the Controller determines is excessive or unreasonable.

(C) The Controller shall adjust the payment to correct for any underpayments or overpayments that occurred in previous fiscal years.

(3) When paying a timely filed claim for initial reimbursement, the Controller shall withhold 20 percent of the amount of the claim until the claim is audited to verify the actual amount of the mandated costs. All initial reimbursement claims for all fiscal years required to be filed on their initial filing date for a state-mandated local program shall be considered as one claim for the purpose of computing any late claim penalty. Any claim for initial reimbursement filed after the filing deadline shall be reduced by 10 percent of the amount that would have been allowed had the claim been timely filed. The Controller may withhold payment of any late claim for initial reimbursement until the next deadline for funded claims unless sufficient funds are available to pay the claim after all timely filed claims have been paid. In no case may a reimbursement claim be paid if submitted more than one year after the filing deadline specified in the Controller's claiming instructions on funded mandates.

(e) (1) Except as specified in paragraph (2), for the purposes of determining the state's payment obligation under paragraph (1) of subdivision (b) of Section 6 of Article XIII B of the Constitution, a mandate that is "determined in a preceding fiscal year to be payable by the state" means any mandate for which the commission adopted a statewide cost estimate pursuant to this part during a previous fiscal year or that were identified as mandates by a predecessor agency to the commission, or that the Legislature declared by statute to be a legislatively determined mandate, unless the mandate has been repealed or otherwise eliminated.

(2) If the commission adopts a statewide cost estimate for a mandate during the months of April, May, or June, the state's payment obligation under subdivision (b) of Section 6 of Article XIII B shall commence one year after the time specified in paragraph (1).

(Amended by Stats. 2009, 3rd Ex. Sess., Ch. 4, Sec. 4. Effective February 20, 2009.)

17561.5. The payment of an initial reimbursement claim by the Controller shall include accrued interest at the Pooled Money Investment Account rate, if the payment is being made more than 365 days after adoption of the statewide cost estimate for an initial claim. Interest shall begin to accrue as of the 366th day after adoption of the statewide cost estimate for the initial claim. Payment of a subsequent claim that was reported to the Legislature pursuant to paragraph (2) of subdivision (b) of Section 17562 shall include accrued interest at the Pooled Money Investment Account rate for any unpaid amount remaining on August 15 following the filing deadline. Interest shall begin to accrue on August 16 following the filing deadline.

(Amended by Stats. 2007, Ch. 179, Sec. 17. Effective August 24, 2007.)

17561.6. A budget act item or appropriation pursuant to this part for reimbursement of claims shall include an amount necessary to reimburse any interest due pursuant to Section 17561.5.

(Amended by Stats. 2004, Ch. 890, Sec. 21. Effective January 1, 2005.)

17562. (a) The Legislature hereby finds and declares that the increasing revenue constraints on state and local government and the increasing costs of financing state-mandated local programs make evaluation of state-mandated local programs imperative. Accordingly, it is the intent of the Legislature to increase information regarding state mandates and establish a method for regularly reviewing the costs and benefits of state-mandated local programs.

(b) (1) The Controller shall submit a report to the Joint Legislative Budget Committee and fiscal committees by October 31 of each fiscal year beginning with the 2007–08 fiscal year. This report shall summarize, by state mandate, the total amount of claims paid per fiscal year and the amount, if any, of mandate deficiencies or surpluses. This report shall be made available in an electronic spreadsheet format.

(2) The Controller shall submit a report to the Joint Legislative Budget Committee, the applicable fiscal committees, and the Director of Finance by April 30 of each fiscal year. This report shall summarize, by state mandate, the total amount of unpaid claims by fiscal year that were submitted before April 1 of that fiscal year. The report shall also summarize any mandate deficiencies or surpluses. It shall be made available in an electronic spreadsheet, and shall be used for the purpose of determining the state's payment obligation under paragraph (1) of subdivision (b) of Section 6 of Article XIII B of the California Constitution.

(c) After the commission submits its second semiannual report to the Legislature pursuant to Section 17600, the Legislative Analyst shall submit a report to the Joint Legislative Budget Committee and legislative fiscal committees on the mandates included in the commission's reports. The report shall make recommendations as to whether the mandate should be repealed, funded, suspended, or modified.

(d) In its annual analysis of the Budget Bill and based on information provided pursuant to subdivision (b), the Legislative Analyst shall report total annual state costs for mandated programs and, as appropriate, provide an analysis of specific mandates and make recommendations on whether the mandate should be repealed, funded, suspended, or modified.

(e) (1) A statewide association of local agencies or school districts or a Member of the Legislature may submit a proposal to the Legislature recommending the elimination or modification of a state-mandated local program. To make such a proposal, the association or member shall submit a letter to the Chairs of the Assembly Committee on Education or the Assembly Committee on Local Government, as the case may be, and the Senate Committee on Education or the Senate Committee on Local Government, as the case may be, specifying the mandate and the concerns and recommendations regarding the mandate. The association or member shall include in the proposal all information relevant to the conclusions. If the chairs of the committees desire additional analysis of the submitted proposal, the chairs may refer the proposal to the Legislative Analyst for review and comment. The chairs of the committees may refer up to a total of 10 of these proposals to the Legislative Analyst for review in any year. Referrals shall be submitted to the Legislative Analyst by December 1 of each year.

(2) The Legislative Analyst shall review and report to the Legislature with regard to each proposal that is referred to the office pursuant to paragraph (1). The Legislative Analyst shall recommend that the Legislature adopt, reject, or modify the proposal. The report and recommendations shall be submitted annually to the Legislature by March 1 of the year subsequent to the year in which referrals are submitted to the Legislative Analyst.

(f) It is the intent of the Legislature that the Assembly Committee on Local Government and the Senate Committee on Local Government hold a joint hearing each year regarding the following:

(1) The reports and recommendations submitted pursuant to subdivision (e).

(2) The reports submitted pursuant to Sections 17570, 17600, and 17601.

(3) Legislation to continue, eliminate, or modify any provision of law reviewed pursuant to this subdivision. The legislation may be by subject area or by year or years of enactment.

(Amended by Stats. 2012, Ch. 728, Sec. 72. (SB 71) Effective January 1, 2013.)

17563. Any funds received by a local agency or school district pursuant to the provisions of this chapter may be used for any public purpose.

(Added by Stats. 1986, Ch. 879, Sec. 8.)

17564. (a) No claim shall be made pursuant to Sections 17551, 17561, or 17573, nor shall any payment be made on claims submitted pursuant to Sections 17551 or 17561, or pursuant to a legislative determination under Section

17573, unless these claims exceed one thousand dollars ($1,000). However, a county superintendent of schools or county may submit a combined claim on behalf of school districts, direct service districts, or special districts within their county if the combined claim exceeds one thousand dollars ($1,000) even if the individual school district's, direct service district's, or special district's claims do not each exceed one thousand dollars ($1,000). The county superintendent of schools or the county shall determine if the submission of the combined claim is economically feasible and shall be responsible for disbursing the funds to each school, direct service, or special district. These combined claims may be filed only when the county superintendent of schools or the county is the fiscal agent for the districts. All subsequent claims based upon the same mandate shall only be filed in the combined form unless a school district, direct service district, or special district provides to the county superintendent of schools or county and to the Controller, at least 180 days prior to the deadline for filing the claim, a written notice of its intent to file a separate claim.

(b) Claims for direct and indirect costs filed pursuant to Section 17561 shall be filed in the manner prescribed in the parameters and guidelines or reasonable reimbursement methodology and claiming instructions.

(c) Claims for direct and indirect costs filed pursuant to a legislatively determined mandate pursuant to Section 17573 shall be filed and paid in the manner prescribed in the Budget Act or other bill, or claiming instructions, if applicable.

(Amended by Stats. 2007, Ch. 329, Sec. 9. Effective January 1, 2008.)

17565. If a local agency or a school district, at its option, has been incurring costs which are subsequently mandated by the state, the state shall reimburse the local agency or school district for those costs incurred after the operative date of the mandate.

(Added by Stats. 1986, Ch. 879, Sec. 10.)

17567. In the event that the amount appropriated for reimbursement purposes pursuant to Section 17561 is not sufficient to pay all of the claims approved by the Controller, the Controller shall prorate claims in proportion to the dollar amount of approved claims timely filed and on hand at the time of proration. The Controller shall adjust prorated claims if supplementary funds are appropriated for this purpose. Notwithstanding any other law, if one thousand dollars ($1,000) or less is appropriated for a program, the Controller shall determine the most cost-effective allocation method.

(Amended by Stats. 2013, Ch. 77, Sec. 1. (AB 392) Effective January 1, 2014.)

17568. If a local agency or school district submits an otherwise valid reimbursement claim to the Controller after the deadline specified in Section 17560, the Controller shall reduce the reimbursement claim in an amount equal to 10 percent of the amount that would have been allowed had the reimbursement claim been timely filed, provided that the amount of this reduction shall not exceed ten thousand dollars ($10,000). In no case shall a reimbursement claim be paid that is submitted more than one year after the deadline specified in Section 17560.

(Amended by Stats. 2008, 3rd Ex. Sess., Ch. 6, Sec. 4. Effective February 16, 2008.)

17570. (a) For purposes of this section the following definitions shall apply:

(1) "Mandates law" means published court decisions arising from state mandate determinations by the State Board of Control or the Commission on State Mandates, or that address this part or Section 6 of Article XIII B of the California Constitution. "Mandates law" also includes statutory amendments to this part and amendments to Section 6 of Article XIII B of the California Constitution.

(2) "Subsequent change in law" is a change in law that requires a finding that an incurred cost is a cost mandated by the state, as defined by Section 17514, or is not a cost mandated by the state pursuant to Section 17556, or a change in mandates law, except that a "subsequent change in law" does not include the amendments to Section 6 of Article XIII B of the California Constitution that were approved by the voters on November 2, 2004. A "subsequent change in law" also does not include a change in the statutes or executive orders that impose new state-mandated activities and require a finding pursuant to subdivision (a) of Section 17551.

(3) "Test claim decision" means a decision of the Commission on State Mandates on a test claim filed pursuant to Section 17551 or a decision of the State Board of Control on a claim for state reimbursement filed pursuant to Article 1 (commencing with Section 2201), Article 2 (commencing with Section 2227), and Article 3 (commencing with Section 2240) of Chapter 3 of Part 4 of Division 1 of the Revenue and Taxation Code prior to January 1, 1985.

(b) The commission may adopt a new test claim decision to supersede a previously adopted test claim decision only upon a showing that the state's liability for that test claim decision pursuant to subdivision (a) of Section 6 of Article XIII B of the California Constitution has been modified based on a subsequent change in law.

(c) A local agency or school district, statewide association of local agencies or school districts, or the Department of Finance, the Controller, or other affected state agency may file a request with the commission to adopt a new test claim decision pursuant to this section.

(d) The commission shall adopt procedures for receiving requests to adopt a new test claim decision pursuant to this section and for providing notice and a hearing on those requests. The procedures shall do all of the following:

(1) Specify that all requests for adoption of a new test claim decision shall be filed on a form prescribed by the commission that shall contain at least the following elements and documents:

(A) The name, case number, and adoption date of the prior test claim decision.

(B) A detailed analysis of how and why the state's liability for mandate reimbursement has been modified pursuant to subdivision (a) of Section 6 of Article XIII B of the California Constitution based on a subsequent change in law.

(C) The actual or estimated amount of the annual statewide change in the state's liability for mandate reimbursement pursuant to subdivision (a) of Section 6 of Article XIII B of the California Constitution based on a subsequent change in law.

(D) Identification of all of the following, if relevant:

(i) Dedicated state funds appropriated for the program.

(ii) Dedicated federal funds appropriated for the program.

(iii) Fee authority to offset the costs of the program.

(iv) Federal law.

(v) Court decisions.

(vi) State or local ballot measures and the corresponding date of the election.

(E) All assertions of fact shall be supported with declarations made under penalty of perjury, based on the declarant's personal knowledge, information, or belief, and be signed by persons who are authorized and competent to do so, including, but not limited to, the following:

(i) Declarations of actual or estimated annual statewide costs that will or will not be incurred to implement the alleged mandate.

(ii) Declarations identifying all local, state, or federal funds, or fee authority that may or may not be used to offset the increased costs that will or will not be incurred by claimants to implement the alleged mandate or result in a finding of no costs mandated by the state pursuant to Section 17556.

(iii) Declarations describing new activities performed to implement specific provisions of the test claim statute or executive order alleged to impose a reimbursable state-mandated program.

(F) Specific references shall be made to chapters, articles, sections, or page numbers that are alleged to impose or not impose a reimbursable state-mandated program.

(2) Require that a request for the adoption of a new test claim decision be signed at the end of the document, under penalty of perjury, by the requester or its authorized representative, along with a declaration that the request is true and complete to the best of the declarant's personal knowledge, information, or belief. The procedures shall also require that the date of signing, the declarant's title, address, telephone number, facsimile machine telephone number, and electronic mail address be included.

(3) Provide that the commission shall return a submitted request that is incomplete to the requester and allow the requester to remedy the deficiencies. The procedures shall also provide that the commission may disallow the original filing if a complete request is not received by the commission within 30 calendar days from the date that the incomplete request was returned to the requester.

(4) Establish a two-step hearing process to consider requests for adoption of a new test claim decision pursuant to this section. As the first step, the commission shall conduct a hearing to determine if the requester has made a showing that the state's liability pursuant to subdivision (a) of Section 6 of Article XIII B of the California Constitution has been modified based on a subsequent change in law. If the commission determines that the requester has made this showing, then pursuant to the commission's authority in subdivision (b) of this section, the commission shall notice the request for a hearing to determine if a new test claim decision shall be adopted to supersede the previously adopted test claim decision.

(5) Provide for presentation of evidence and legal argument at the hearings by the requester, interested parties, the Department of Finance, the Controller, any other affected state agency, and interested persons.

(6) Permit a hearing to be postponed at the request of any party, without prejudice, until the next scheduled hearing.

(e) To implement the procedures described in subdivision (d), the commission shall initially adopt regulations as emergency regulations and, for purposes of Section 11349.6, the adoption of the regulations shall be considered by the Office of Administrative Law to be necessary for the immediate preservation of the public peace, health and safety, and general welfare. Notwithstanding subdivision (e) of Section 11346.1, the regulations shall be repealed within 180 days after their effective date, unless the commission complies with Chapter 3.5 (commencing with Section 11340) of Part 1 as provided in subdivision (e) of Section 11346.1.

(f) A request for adoption of a new test claim decision shall be filed on or before June 30 following a fiscal year in order to establish eligibility for reimbursement or loss of reimbursement for that fiscal year.

(g) The commission shall notify interested parties, the Controller, the Department of Finance, affected state agencies, and the Legislative Analyst of any complete request for the adoption of a new test claim decision that the commission receives.

(h) If the commission determines that the requester has made a showing that the state's liability pursuant to subdivision (a) of Section 6 of Article XIII B of the California Constitution has been modified based on a subsequent change in law, and the commission notices the request for a hearing to determine whether a new test claim decision shall be adopted that supersedes a prior test claim decision, the Controller shall notify eligible claimants that the request has been filed with the commission and that the original test claim decision may be superseded by a new decision adopted by the commission. The notification may be included in the next set of claiming instructions issued to eligible claimants.

(i) If the commission adopts a new test claim decision that supersedes the previously adopted test claim decision, the commission shall adopt new parameters and guidelines or amend existing parameters and guidelines or reasonable reimbursement methodology pursuant to Sections 17557, 17557.1, and 17557.2.

(j) Any new parameters and guidelines adopted or amendments made to existing parameters and guidelines or a reasonable reimbursement methodology shall conform to the new test claim decision adopted by the commission.

(k) The Controller shall follow the procedures in Sections 17558, 17558.5, 17560, 17561, and 17561.5, as applicable, for a new test claim decision adopted by the commission pursuant to this section.

(l) If the commission adopts a new test claim decision that will result in reimbursement pursuant to Section 6 of Article XIII B of the California Constitution because a cost is a cost mandated by the state, as defined in Section 17514, the commission shall determine the amount to be subvened to local agencies and school districts by adopting a new statewide cost estimate pursuant to Section 17557.

(m) In addition to the reports required pursuant to Sections 17600 and 17601, the commission shall notify the Legislature within 30 days of adopting a new test claim decision that supersedes a prior test claim decision and determining the amount to be subvened to local agencies and school districts for reimbursement pursuant to this section.

(Added by Stats. 2010, Ch. 719, Sec. 33. (SB 856) Effective October 19, 2010.)

17570.1. As part of its review and consideration pursuant to Sections 17581 and 17581.5, the Legislature may, by statute, request that the Department of Finance consider exercising its authority pursuant to subdivision (c) of Section 17570.

(Added by Stats. 2010, Ch. 719, Sec. 34. (SB 856) Effective October 19, 2010.)

17571. The commission, upon request of a local agency or school district, shall review the claiming instructions issued by the Controller or any other authorized state agency for reimbursement of mandated costs. If the commission determines that the claiming instructions do not conform to the parameters and guidelines, the commission shall direct the Controller to modify the claiming instructions and the Controller shall modify the claiming instructions to conform to the parameters and guidelines as directed by the commission.

(Amended by Stats. 1999, Ch. 643, Sec. 7. Effective January 1, 2000.)

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HEALTH AND SAFETY CODE - HSC

DIVISION 101. ADMINISTRATION OF PUBLIC HEALTH [100100 - 101997] *(Division 101 added by Stats. 1995, Ch. 415, Sec. 3.)*

PART 1. CALIFORNIA DEPARTMENT OF HEALTH SERVICES [100100 - 100922] *(Part 1 added by Stats. 1995, Ch. 415, Sec. 3.)*

CHAPTER 4. Regulation of Laboratory Services [100700 - 100922] *(Chapter 4 added by Stats. 1995, Ch. 415, Sec. 3.)*

ARTICLE 3. Environmental Laboratories [100825 - 100920.5] *(Article 3 added by Stats. 1995, Ch. 415, Sec. 3.)*

100825. (a) This article shall be known, and may be cited, as the Environmental Laboratory Accreditation Act.

(b) Laboratories that perform analyses on any combination of environmental samples, or raw or processed agricultural products for regulatory purposes shall obtain a certificate of accreditation pursuant to this article.

(c) Unless the express language or context requires otherwise, the definitions in this article shall govern the construction of the article.

(1) “Accreditation” means the recognition of a laboratory by the state board to conduct analyses of environmental samples for regulatory purposes.

(2) “Assessor body” means the organization that actually executes the accreditation process, including receiving and reviewing applications, documents, PT sample results, and onsite assessments.

(3) “Certificate” means a document issued by the state board to a laboratory that has received accreditation pursuant to this article.

(4) “Department” means the state board.

(5) “ELAP” means state accreditation program established under this article.

(6) “Environmental samples” means potable and nonpotable surface waters or groundwaters, soils and sediments, hazardous wastes, biological materials, or any other sample designated for regulatory purposes.

(7) “Proficiency testing (PT)” is a means of evaluating a laboratory’s performance under controlled conditions relative to a given set of criteria through analysis of unknown samples provided by an external source.

(8) “PT sample” means a sample used for proficiency testing.

(9) “Regulatory purposes” means a statutory or regulatory requirement of a state board, office, or department, or of a division or program that requires a laboratory certified under this article or of any other state or federal agency that requires a laboratory to be accredited.

(10) “Revocation” means the permanent loss of a certificate of accreditation, including all units and fields of accreditation for state accreditation and all fields of accreditation for TNI accreditation.

(11) “State accreditation” means accreditation of a laboratory, that has met the requirements of this article and regulations adopted by the state board pursuant to this article.

(12) “State board” means the State Water Resources Control Board.

(13) “Suspension” means the temporary loss of a certificate of accreditation or a unit or field of accreditation.

(14) “TNI” means The NELAC Institute, a nonprofit corporation created to combine the functions of the National Environmental Laboratory Accreditation Conference and the Institute for National Environmental Laboratory Accreditation.

(15) “TNI accreditation” means the accreditation of a laboratory that has met the requirements of TNI standards, and the requirements of this article.

(16) "TNI accredited laboratory" means a laboratory that has met the standards of TNI and has been accredited by a primary or secondary TNI-recognized accrediting body.

(17) "TNI-recognized accrediting body" means a state agency that is authorized by TNI to accredit laboratories.

(18) "TNI-recognized primary accrediting authority" means a state agency that is responsible for the accreditation of environmental laboratories within that state or that performs the primary accreditation of a lab from a non-TNI state or where the laboratory's home state does not offer accreditation in a given field of accreditation.

(19) "TNI-recognized secondary accrediting authority" means a state agency that is authorized by TNI to accredit environmental laboratories within that state that have been accredited by a TNI-approved accrediting authority in another state.

(20) "TNI standards" means the laboratory standards adopted by TNI.

(Amended by Stats. 2017, Ch. 327, Sec. 1. (AB 1438) Effective January 1, 2018.)

100827. A laboratory accredited by the department shall report, in a timely fashion and in accordance with the request for analysis, the full and complete results of all detected contaminants and pollutants to the person or entity that submitted the material for testing. The department may adopt regulations to establish reporting requirements for this section.

(Added by Stats. 2005, Ch. 406, Sec. 3. Effective January 1, 2006.)

100829. The State Water Resources Control Board may do all of the following related to accrediting environmental laboratories in the state:

(a) Offer both state accreditation and TNI accreditation, which shall be considered equivalent for regulatory activities covered by this article.

(b) Adopt regulations to establish the accreditation procedures for both types of accreditation.

(c) Retain exclusive authority to grant TNI accreditation.

(d) Accept certificates of accreditation from laboratories that have been accredited by other TNI-recognized accrediting authorities.

(e) Adopt regulations to establish procedures for recognizing the accreditation of laboratories located outside California for activities regulated under this article.

(f) (1) Adopt a schedule of fees to recover costs incurred for the accreditation of environmental laboratories. Consistent with Section 3 of Article XIII A of the California Constitution, the state board shall set the fees under this section in an amount sufficient to recover all reasonable regulatory costs incurred for the purposes of this article.

(2) The state board shall set the amount of total revenue collected each year through the fee schedule at an amount equal to the amount appropriated by the Legislature in the annual Budget Act from the Environmental Laboratory Improvement Fund for expenditure for the administration of this article, taking into account the reserves in the Environmental Laboratory Improvement Fund. The state board shall review and revise the fees each fiscal year as necessary to conform with the amounts appropriated by the Legislature. If the state board determines that the revenue collected during the preceding year was greater than, or less than, the amounts appropriated by the Legislature, the state board may further adjust the fees to compensate for the over or under collection of revenue.

(3) The state board shall adopt the schedule of fees by emergency regulation. The emergency regulations may include provisions concerning the administration and collection of the fees. Any emergency regulations adopted pursuant to this section, any amendment to those regulations, or subsequent adjustments to the annual fees, shall be adopted by the state board in accordance with Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code. The adoption of these regulations is an emergency and shall be considered by the Office of Administrative Law as necessary for the immediate preservation of the public peace, health, safety, and general welfare. Notwithstanding Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code, any emergency regulations adopted by the state board, or adjustments to the annual fees made by the state board pursuant to this section, are not subject to review by the Office of Administrative Law and remain in effect until revised by the state board.

(4) Fees shall be set for the two types of accreditation provided for in subdivision (a), including application fees.

(5) Programs operated under this article shall be fully fee-supported.

(Amended by Stats. 2017, Ch. 327, Sec. 2. (AB 1438) Effective January 1, 2018.)

100830. The department may do all of the following:

(a) Adopt regulations establishing requirements for both types of accreditation. The regulations shall include, but not be limited to, all of the following:

(1) Laboratory personnel.

(2) Quality assurance procedures.

(3) Laboratory equipment.

(4) Facilities.

(5) Standard operating procedures.

(6) Proficiency testing.

(7) Onsite assessments.

(8) Recordkeeping.

(9) Units and fields of accreditation.

(b) Adopt regulations establishing conditions under which the department may issue, deny, renew, or suspend a certificate of accreditation for individual units or fields. Suspension and denial of units or fields of accreditation shall be based on a laboratory's failure to comply with this article and regulations adopted thereunder.

(Repealed and added by Stats. 2005, Ch. 406, Sec. 6. Effective January 1, 2006.)

100832. All regulations adopted by the department pursuant to this article, as they read immediately preceding January 1, 2006, shall remain in full force and effect until repealed or amended by the department in accordance with the rulemaking provisions of the Administrative Procedure Act, Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code.

(Repealed and added by Stats. 2005, Ch. 406, Sec. 9. Effective January 1, 2006.)

100837. The state board may contract with approved third-party laboratory assessor bodies in accordance with the criteria developed by the TNI or a federal agency.

(Amended by Stats. 2017, Ch. 327, Sec. 3. (AB 1438) Effective January 1, 2018.)

100840. Any laboratory requesting ELAP certification or TNI accreditation under this article shall file with the state board an application on forms prescribed by the state board containing all of the following:

(a) The names of the applicant and the laboratory.

(b) The location of the laboratory.

(c) A list of fields of testing for which the laboratory is seeking certification.

(d) Evidence satisfactory to the state board that the applicant has the ability to comply with this article and the regulations adopted under this article.

(e) Any other information required by the state board for administration or enforcement of this article or regulations adopted under this article.

(Amended by Stats. 2017, Ch. 327, Sec. 4. (AB 1438) Effective January 1, 2018.)

100845. (a) Each certificate issued pursuant to this article for ELAP certification shall be issued to the owner of the laboratory and shall expire 24 months from the date of issuance. An application for renewal shall be filed with the department prior to the expiration date of the certificate. Failure to make timely application for renewal shall result in expiration of the certificate.

(b) A certificate shall be forfeited by operation of law prior to its expiration date when one of the following occurs:

(1) The owner sells or otherwise transfers the ownership of the laboratory, except that the certificate shall remain in force 90 calendar days if the department receives written assurance and appropriate documentation within 30 calendar days after the change has occurred that one or more of the conditions in subdivision (c) are met. The department shall accept or reject the assurance in writing within 30 calendar days after it has been received.

(2) There is a change in the location of the laboratory (except a mobile laboratory) or structural alteration that may affect adversely the quality of analysis in the fields of testing for which the laboratory has been certified or is seeking certification, without written notification to the department within 30 calendar days.

(3) The certificate holder surrenders the certificate to the department.

(c) Upon change of ownership of a laboratory, the department may extend a certificate to the expiration date of the original certificate upon written assurance by the new owner that the operation of the laboratory will continue so as not to adversely affect the conditions regulated by this article.

(d) The department shall be notified in writing within 30 calendar days whenever there is a change of director or other person in charge of a laboratory certified under this article. The notification shall include documentation of the qualifications of the new director or other person in charge of the laboratory.

(Amended by Stats. 2002, Ch. 215, Sec. 4. Effective January 1, 2003.)

100847. (a) The period of accreditation for TNI accredited laboratories shall be 12 months. An application for renewal shall be filed with the state board prior to the expiration date of the accreditation. Failure to make timely application for renewal shall result in expiration of the accreditation.

(b) The accrediting authority shall be notified in writing within 30 calendar days of the sale or other transfer of ownership of a TNI accredited laboratory.

(c) The accrediting authority shall be notified in writing within 30 calendar days of the change in location of a TNI accredited laboratory, other than a mobile laboratory.

(d) The accrediting authority shall be notified within 30 calendar days whenever there is a change of laboratory director, or other individual in charge of the laboratory.

(e) TNI accredited laboratories shall conspicuously display their most recent TNI accreditation certificate or their accreditation fields of testing, or both, in a permanent place in their laboratory.

(f) TNI accredited laboratories shall not use their TNI accreditation document or their accreditation status to imply any endorsement by the accrediting authority.

(Amended by Stats. 2017, Ch. 327, Sec. 5. (AB 1438) Effective January 1, 2018.)

100850. (a) Upon the filing of an application for ELAP certification or TNI accreditation and after a finding by the state board that there is full compliance with this article and regulations adopted under this article, the state board shall issue to the owner certification or accreditation in the fields of testing for which the laboratory is seeking certification and with respect to which the state board has determined there is full compliance.

(b) The state board shall deny or revoke a certificate if it finds any of the following:

(1) The laboratory fails to report acceptable results in the analysis of proficiency testing samples.

(2) The laboratory fails to analyze proficiency testing samples.

(3) The laboratory submits, as its own, proficiency testing sample results generated by another laboratory.

(4) The laboratory fails to pass an onsite assessment.

(5) The laboratory is not in compliance with any other provision of this article or regulations adopted under this article.

(c) Upon the filing of a complete application for certification or accreditation pursuant to subdivision (a) and Section 100870, the state board may issue to a laboratory interim certification or accreditation pending the completion of onsite assessment. Interim certification and accreditation shall be nonrenewable and shall remain in effect until certification and accreditation is either granted under subdivision (a) or denied under subdivision (b), but not later than one year after the date of issuance.

(Amended by Stats. 2017, Ch. 327, Sec. 6. (AB 1438) Effective January 1, 2018.)

100851. (a) An application for TNI accreditation or renewal of TNI accreditation shall be denied by the accrediting body for any of the following reasons:

(1) Failure to submit all information necessary to determine the laboratory's eligibility for its accreditation or continued compliance with this section or regulations adopted thereunder.

(2) Failure of the laboratory staff to meet TNI standards for personnel requirements. These qualifications may include education, training, and experience requirements.

(3) Failure to successfully analyze and report proficiency testing samples.

(4) Failure to respond to a deficiency report from the onsite assessment with a corrective action report within 30 calendar days of the receipt of the report.

(5) Failure to implement the corrective actions detailed in the corrective action report within the specified amount of time.

(6) Misrepresentation of any material fact pertinent to receiving or maintaining TNI accreditation.

(b) The TNI-recognized accrediting body may suspend the accreditation of a TNI-accredited laboratory, in whole or in part, for failure to correct the deficiencies, within a specified amount of time, as identified in the onsite assessment. The laboratory shall retain those areas of accreditation where it continues to meet the requirements of the accrediting body. A suspended TNI-accredited laboratory shall not be required to reapply for accreditation if the causes for suspension are corrected within six months.

(c) The TNI-approved accrediting body shall suspend a TNI accreditation, in whole or in part for the following reasons:

(1) Failure to complete proficiency testing studies.

(2) Failure to maintain a history of at least two successful, out of the most recent three, proficiency testing studies for each affected accreditation field of testing, subgroup, or analyte for which the laboratory is accredited.

(3) Failure to successfully analyze and report proficiency testing sample results pursuant to TNI standards.

(4) Failure to submit an acceptable corrective action report in response to a deficiency report and failure to implement corrective action related to deficiencies found during laboratory assessments within the required time period, as required by the TNI standards.

(5) Failure to notify the accrediting body of any changes in key accreditation criteria, as required by TNI standards.

(6) Failure to perform all accredited tests in accordance with TNI standards.

(7) Failure to meet all applicable quality system requirements in TNI standards.

(d) A suspended laboratory shall not be required to reapply for TNI accreditation if the causes for suspension are corrected within six months. A suspended laboratory shall not continue to analyze samples for the affected fields of testing for which it holds accreditation. A suspended laboratory shall remain suspended without a right to appeal if the suspension is caused by unacceptable proficiency testing sample results.

(e) If a laboratory is unable to correct the reason for suspension, the laboratory's accreditation shall be revoked in whole or in part.

(f) A laboratory's accreditation shall not be suspended without the right to due process, as set forth in TNI standards.

(Amended by Stats. 2018, Ch. 92, Sec. 146. (SB 1289) Effective January 1, 2019.)

100852. (a) Notwithstanding any other law, the state board may issue a certificate to the owner of a laboratory in a field of testing or method adopted by the federal Environmental Protection Agency pursuant to Part 136 of Title 40 of the Code of Federal Regulations, as amended September 11, 1992, as published in the Federal Register (57 FR 41830), or Part 141 of Title 40 of the Code of Federal Regulations, as amended July 17, 1992, as published in the Federal Register (57 FR 31776), and as subsequently amended and published in the Code of Federal Regulations.

(b) As a TNI-recognized accrediting body, the state board shall accept performance-based measurement system methods, when mandated methods are indicated. A fee, as specified in regulations adopted by the state board, may be charged for the review of each performance-based measurement system method.

(c) Notwithstanding any other law, the state board shall not be required to meet the requirements of Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code in order to issue a certificate pursuant to subdivision (a).

(Amended by Stats. 2018, Ch. 92, Sec. 147. (SB 1289) Effective January 1, 2019.)

100855. Upon the denial of an application for ELAP certification or TNI accreditation, the state board shall immediately notify the applicant or organization by certified mail, return receipt requested, of the action and the reasons for the action. The owner of a laboratory may petition for reconsideration under Section 116701.

(Repealed and added by Stats. 2017, Ch. 327, Sec. 10. (AB 1438) Effective January 1, 2018.)

100860.1. (a) At the time of application for ELAP certification and annually thereafter, from the date of the issuance of the certificate, a laboratory shall pay an ELAP certification fee, according to the fee schedule established by the State Water Resources Control Board pursuant to Section 100829.

(b) State and local government-owned laboratories in California performing work only in a reference capacity as a reference laboratory are exempt from the payment of the fees prescribed pursuant to Section 100829.

(c) In addition to the payment of fees authorized by Section 100829, laboratories certified or applying for certification shall pay directly to the designated proficiency testing provider the cost of the proficiency testing

study.

(d) For the purpose of this section, a reference laboratory is a laboratory owned and operated by a governmental regulatory agency for the principal purpose of analyzing samples referred by another governmental regulatory agency or another laboratory for confirmatory analysis.

(Amended by Stats. 2016, Ch. 340, Sec. 26. (SB 839) Effective September 13, 2016.)

100862. (a) At the time of application for TNI accreditation and annually thereafter, from the date of the issuance of the accreditation, a laboratory shall pay a TNI accreditation fee, according to the fee schedule established by the state board pursuant to Section 100829.

(b) In addition to the payment of fees authorized by Section 100829, laboratories accredited or applying for accreditation shall pay directly to the designated proficiency testing provider the cost of the proficiency testing studies.

(Amended by Stats. 2017, Ch. 327, Sec. 11. (AB 1438) Effective January 1, 2018.)

100863. The department shall appoint a multidisciplinary committee to assist, advise, and make recommendations regarding technical, scientific, and administrative matters concerning the accreditation or certification of environmental laboratories. Appointments to the committee shall be made from lists of nominees solicited by the department, and shall provide adequate representation of interested parties and environmental laboratories subject to this chapter. Subcommittees of the committee may be appointed consisting of committee members and other persons having particular knowledge of a subject area, for the purpose of assisting the department on special problems and making recommendations to the committee for consideration in the establishment of rules and regulations. The department shall determine the terms of office of appointees to the committee and any subcommittee. Members of the committee and of any subcommittee shall serve without compensation and shall pay their own expenses incurred as a result of attending meetings or engaging in any other activity pursuant to this section.

(Added by Stats. 1999, Ch. 372, Sec. 16. Effective January 1, 2000.)

100865. (a) In order to carry out the purpose of this article, any duly authorized representative of the state board may do the following:

(1) Enter and inspect a laboratory that is ELAP certified or TNI accredited pursuant to this article or that has applied for ELAP certification or TNI accreditation.

(2) Inspect and photograph any portion of the laboratory, equipment, any activity, or any samples taken, or copy and photograph any records, reports, test results, or other information related solely to certification under this article or regulations adopted pursuant to this article.

(3) Require an owner of a laboratory to provide, within 15 days of receiving a request from a duly authorized representative of the state board, reports, test results, and other information required to implement this article, including, but not limited to, applicable standard operating procedures, quality control or quality assurance manuals, quality control or quality assurance data, employee qualifications, training records, or information relating to accreditation with another state or agency. The state board may require a laboratory to conduct proficiency testing in any of the laboratory's accredited fields of testing.

(b) It shall be a misdemeanor for any person to prevent, interfere with, or attempt to impede in any way, any duly authorized representative of the state board from undertaking the activities authorized by this section.

(c) If a laboratory that is seeking ELAP certification, TNI accreditation, ELAP recertification, or TNI reaccreditation refuses entry of a duly authorized representative during normal business hours for either an announced or unannounced onsite assessment, the certification, accreditation, recertification, or reaccreditation shall be denied or revoked.

(d) Refusal of a request by a TNI approved accrediting authority, the state board, or any employee, agent, or contractor of the state board, for permission to inspect, pursuant to this section, the laboratory and its operations and pertinent records during the hours the laboratory is in operation shall result in denial or revocation of ELAP certification or TNI accreditation.

(Amended by Stats. 2017, Ch. 327, Sec. 12. (AB 1438) Effective January 1, 2018.)

100870. (a) Any laboratory that is ELAP certified or holds TNI accreditation or has applied for ELAP certification or TNI accreditation or for renewal of ELAP certification or TNI accreditation under this article shall analyze proficiency testing samples, if these testing samples are available. The state board shall have the authority to contract with

third parties for the provision of proficiency testing samples for those laboratories that hold or are applying for ELAP certification. The samples shall be tested by the laboratory according to methods specifically approved for this purpose by the United States government or the state board, or alternate methods of demonstrated adequacy or equivalence, as determined by the state board. Proficiency testing sample sets shall be provided, when available, not less than twice, nor more than four times, a year to each certified laboratory that performs analyses of food for pesticide residues.

(b) (1) The state board may provide, directly or indirectly, proficiency testing samples to a laboratory for the purpose of determining compliance with this article with or without identifying the state board.

(2) When the state board identifies itself, all of the following shall apply:

(A) The results of the testing shall be submitted to the state board on forms provided by the state board on or before the date specified by the state board, and shall be used in determining the competency of the laboratory.

(B) There shall be no charge to the state board for the analysis.

(3) When the state board does not identify itself, the state board shall pay the price requested by the laboratory for the analyses.

(c) If a certified or TNI accredited laboratory submits proficiency testing sample results generated by another laboratory as its own, the certification or TNI accreditation shall be immediately revoked.

(d) Laboratories shall obtain their proficiency testing samples from proficiency testing sample providers that meet TNI standards. Laboratories shall bear the cost of any proficiency testing study fee charged for participation. Each laboratory shall authorize the providers of proficiency testing samples to release the report of the study results directly to the state board, as well as to the laboratory.

(Amended by Stats. 2017, Ch. 327, Sec. 13. (AB 1438) Effective January 1, 2018.)

100872. (a) An ELAP certified laboratory shall successfully analyze proficiency testing samples for those fields of testing for which they are certified, not less than once a year, where applicable. Proficiency testing procedures shall be approved by the United States government or by the state board.

(b) A TNI accredited laboratory shall participate in, and meet the success rate for, proficiency testing studies as required in the TNI standards.

(c) The ELAP certified or TNI accredited laboratory shall discontinue the analyses of samples for the fields of testing or subgroups which have been suspended for failure to comply with the proficiency testing requirements in this section.

(Amended by Stats. 2017, Ch. 327, Sec. 14. (AB 1438) Effective January 1, 2018.)

100875. Whenever the state board determines that any laboratory has violated or is violating this article or any certificate, regulation, or standard issued or adopted pursuant to this article, any officer or employee of the state board delegated such authority may issue an order directing compliance forthwith or directing compliance in accordance with a time schedule set by the state board. The owner of a laboratory issued an order under this section may petition for reconsideration under Section 116701.

(Amended by Stats. 2017, Ch. 327, Sec. 15. (AB 1438) Effective January 1, 2018.)

100880. If the state board determines that a laboratory is in violation of this article or any regulation or order issued or adopted pursuant to this article, the state board may, in addition to suspension, denial, or revocation of the certificate or TNI accreditation, issue a citation to the owner of the laboratory. It shall be the function of the recognized accrediting authority to issue citations. The Legislature finds and declares that since TNI is a standard setting body, it cannot, as such, enforce civil or criminal penalties.

(a) The citation shall be served personally or by registered mail.

(b) Each citation shall be in writing and shall describe with particularity the nature of the violation, including a reference to the statutory provision, order, or regulation alleged to have been violated.

(c) The citation shall fix the earliest feasible time for elimination or correction of the condition constituting the violation.

(d) Citations issued pursuant to this section shall specify a civil penalty for each violation, not to exceed one thousand dollars ($1,000), for each day that the violation occurred.

(e) If the owner fails to correct a violation within the time specified in the citation, the state board may assess a civil penalty as follows:

(1) For failure to comply with any citation issued for a violation of this article or a regulation, an amount not to exceed two hundred fifty dollars ($250) for each day that the violation continues beyond the date specified for correction in the citation.

(2) For failure to comply with any citation issued for violation of any state board-issued order, an amount not to exceed two hundred dollars ($200) for each day the violation continues beyond the date specified for correction in the citation.

(f) The owner of a laboratory issued a citation under this section or assessed a penalty under subdivision (e) may petition for reconsideration under Section 116701.

(Amended by Stats. 2017, Ch. 327, Sec. 16. (AB 1438) Effective January 1, 2018.)

100885. (a) Any person who operates a laboratory that performs work that requires certification or TNI accreditation under Section 25198, 25298.5, 25358.4, 110490, or 116390 of this code, or Section 13176 of the Water Code, who is not certified or TNI accredited to do so, may be enjoined from so doing by any court of competent jurisdiction upon suit by the state board.

(b) When the state board determines that any person has engaged in, or is engaged in, any act or practice that constitutes a violation of this article, or any regulation or order issued or adopted thereunder, the state board may bring an action in the superior court for an order enjoining these practices or for an order directing compliance and affording any further relief that may be required to ensure compliance with this article.

(Amended by Stats. 2017, Ch. 327, Sec. 17. (AB 1438) Effective January 1, 2018.)

100886. Any person who operates a laboratory for the purposes specified in Section 25198, 25298.5, 25358.4, or 116390 of this code, or Section 13176 of the Water Code, shall report the full and complete results of all detected contamination and pollutants to the person or entity that submitted the material for testing.

(Added by Stats. 1997, Ch. 814, Sec. 9. Effective January 1, 1998.)

100890. (a) Any person who knowingly makes any false statement or representation in any application, record, or other document submitted, maintained, or used for purposes of compliance with this article, may be liable, as determined by the court, for a civil penalty not to exceed five thousand dollars ($5,000) for each separate violation or, for continuing violations, for each day that violation continues.

(b) Any person who operates a laboratory for purposes specified pursuant to Section 25198, 25298.5, 25358.4, 110490, or 116390 of this code, or Section 13176 of the Water Code that requires certification, who is not certified by the department pursuant to this article, may be liable, as determined by the court, for a civil penalty not to exceed five thousand dollars ($5,000) for each separate violation or, for continuing violations, for each day that violation continues.

(c) A laboratory that advertises or holds itself out to the public or its clients as having been certified for any field of testing without having a valid and current certificate in each field of testing identified by the advertisement or other representation may be liable, as determined by the court, for a civil penalty not to exceed one thousand dollars ($1,000) or, for continuing violations, for each day that violation continues.

(d) Each civil penalty imposed for any separate violation pursuant to this section shall be separate and in addition to any other civil penalty imposed pursuant to this section or any other provision of law.

(Amended by Stats. 2017, Ch. 327, Sec. 18. (AB 1438) Effective January 1, 2018.)

100895. (a) Any person who knowingly does any of the following acts may, upon conviction, be punished by a fine of not more than twenty-five thousand dollars ($25,000) for each day of violation, by imprisonment in a county jail not to exceed one year, or by both that fine and imprisonment:

(1) Makes any false statement or representation in any application, record, report, or other document submitted, maintained, or used for the purposes of compliance with this article.

(2) Has in his or her possession any record required to be maintained pursuant to this article that has been altered or concealed.

(3) Destroys, alters, or conceals any record required to be maintained pursuant to this article.

(4) Withholds information regarding an imminent and substantial danger to the public health or safety when the information has been requested by the state board in writing and is required to carry out the state board's responsibilities pursuant to this article.

(b) A second or subsequent violation of subdivision (a) is punishable by imprisonment pursuant to subdivision (h) of Section 1170 of the Penal Code for 16, 20, or 24 months or in a county jail for not more than one year, by a fine of not less than two thousand dollars ($2,000) or more than fifty thousand dollars ($50,000) per day of violation, or by both that imprisonment and fine.

(c) An ELAP certified or TNI accredited laboratory, upon suspension, revocation, or withdrawal of its ELAP certification or TNI accreditation, shall do all of the following:

(1) Discontinue use of all catalogs, advertising, business solicitations, proposals, quotations, or their materials that contain reference to their past certification or accreditation status.

(2) Return its ELAP certificate or its TNI accreditation to the state board.

(3) Cease all testing of samples for regulatory purposes.

(d) The penalties cited in subdivisions (a) and (b) shall also apply to TNI accredited laboratories.

(Amended by Stats. 2017, Ch. 327, Sec. 19. (AB 1438) Effective January 1, 2018.)

100900. The remedies provided by this article are cumulative and shall not be construed as restricting any remedy, provisional or otherwise, provided by law for the benefit of any party, and no judgment under this article shall preclude any party from obtaining additional relief based upon the same facts.

(Added by Stats. 1995, Ch. 415, Sec. 3. Effective January 1, 1996.)

100905. The department may suspend or revoke any certificate issued under of this article for any of the following reasons:

(a) Violation by the owner of the laboratory of any of the provisions of this article or any regulation adopted under this article.

(b) Aiding, abetting, or permitting the violation of any provision of this article or regulations adopted under this article.

(c) Proof that the certificateholder or owner has made false statements in any material regard on the application for certification.

(d) Conviction of an owner of the laboratory of any crime that is substantially related to the qualifications or duties of that owner and that is related to the functions of the laboratory. For purposes of this subdivision, a "conviction" means a plea or verdict of guilty or a conviction following a plea of nolo contendere. Action to revoke or suspend the certificate may be taken when: (1) the time for appeal has elapsed, or (2) the judgment of conviction has been affirmed on appeal, or (3) when an order granting probation is made suspending the imposition of sentence, notwithstanding a subsequent order pursuant to Section 1203.4 of the Penal Code permitting withdrawal of a plea of guilty and entry of a plea of not guilty, or (4) setting aside a verdict of guilty, or (5) dismissing the accusation, information, or indictment. The department shall take into account all judicial decisions on rehabilitation furnished by the owner of the laboratory.

(Added by Stats. 1995, Ch. 415, Sec. 3. Effective January 1, 1996.)

100907. (a) The state board shall revoke, in whole or in part, the accreditation of a TNI accredited laboratory for either of the following reasons:

(1) Failure to submit an acceptable corrective action report in response to a deficiency report, and failure to implement corrective action related to any deficiencies found during a laboratory assessment. The laboratory may submit two corrective actions within the time limits specified by the accrediting authority.

(2) Failure to successfully analyze and report proficiency testing sample results pursuant to TNI standards.

(b) The state board shall revoke, in whole, the accreditation of a TNI accredited laboratory for any of the following reasons:

(1) Failure to respond with a corrective action report within the required 30-day period.

(2) Failure to participate in the proficiency testing program, as required by TNI standards.

(3) Submittal of proficiency test sample results generated by another laboratory as its own.

(4) Misrepresentation of any material fact pertinent to receiving or maintaining accreditation.

(5) Denial of entry during normal business hours for an onsite assessment, as required by TNI standards.

(6) Conviction of charges for the falsification of any report of, or that relates to, a laboratory analysis.

(c) The state board may also revoke, in whole, a laboratory's accreditation for failure to remit the accreditation fees within the time limit established by the accrediting authority.

(d) After correcting the reason or reasons for revocation, the TNI accredited laboratory may reapply for accreditation no sooner than six months from the official date of revocation.

(e) A laboratory's TNI accreditation shall not be revoked without the right to due process, in accordance with Section 100910.

(Amended by Stats. 2017, Ch. 327, Sec. 20. (AB 1438) Effective January 1, 2018.)

100910. (a) The state board, after providing notice to the owner of the laboratory and opportunity for a hearing, may suspend or revoke an ELAP certification or TNI accreditation issued pursuant to this article. The notice shall inform the owner of the laboratory that the owner may request a hearing not later than 20 days from the date on which the notice is received, and shall contain a statement of facts and information that show a basis for the suspension or revocation. If the owner submits a timely request for a hearing, the hearing shall be before the state board or a member of the state board, in accordance with Section 183 of the Water Code and the rules for adjudicative proceedings adopted under Section 185 of the Water Code. If the owner does not submit a timely request for a hearing, the state board may suspend or revoke the permit without a hearing.

(b) If the certification or accreditation at issue has been temporarily suspended pursuant to Section 100915, the notice shall be provided within 15 days of the effective date of the temporary suspension order. The hearing shall be commenced as soon as practicable, but no later than 60 days after the effective date of the temporary suspension order, unless the owner requests an extension of the 60-day period.

(Repealed and added by Stats. 2017, Ch. 327, Sec. 22. (AB 1438) Effective January 1, 2018.)

100915. (a) (1) The state board may temporarily suspend, in whole or in part, ELAP certification or TNI accreditation prior to any hearing, when it has determined that this action is necessary to protect the public. The state board shall notify the owner of the temporary suspension and the effective date of the suspension. The notice shall inform the owner of the laboratory that the owner may request a hearing not later than 20 days from the date on which the notice is received, and shall contain a statement of facts and information that show a basis for the suspension.

(2) (A) If the owner submits a timely request for a hearing, the hearing shall be commenced as soon as possible but no later than 30 calendar days after receipt of the notice or 15 calendar days after the request for a hearing is submitted, whichever is later, unless the owner requests a later date for the hearing. The hearing shall deal only with the issue of whether the temporary suspension shall remain in place pending a hearing under Section 100910.

(B) The hearing shall be conducted under the rules for adjudicative proceedings adopted by the state board under Section 185 of the Water Code.

(C) The temporary suspension shall remain in effect until the hearing is completed and the state board has made a final determination on the merits under Section 100910. However, the temporary suspension shall be deemed vacated if the state board fails to make a final determination on the merits within 60 calendar days after the hearing under Section 100910 has been completed. Vacation of the temporary suspension does not deprive the state board of jurisdiction to proceed with a hearing on the merits under Section 100910.

(b) During the suspension, the laboratory shall discontinue the analysis of samples for the fields of testing specified in the notice.

(Repealed and added by Stats. 2017, Ch. 327, Sec. 24. (AB 1438) Effective January 1, 2018.)

100920. Fees and civil penalties collected under this article shall be deposited in the Environmental Laboratory Improvement Fund, that is hereby created. Moneys in the fund shall be available for expenditure by the department for the purposes of this article, upon appropriation by the Legislature.

(Added by Stats. 1995, Ch. 415, Sec. 3. Effective January 1, 1996.)

100920.5. (a) Within 30 days after service of a copy of a decision or order issued by the state board under this chapter, an aggrieved party may file with the superior court a petition for a writ of mandate for review of the order.

(b) Except as otherwise provided in this section, subdivisions (e) and (f) of Section 1094.5 of the Code of Civil Procedure shall govern proceedings pursuant to this section. For the purposes of subdivision (c) of Section 1094.5 of the Code of Civil Procedure, the court shall uphold the findings of the state board if those findings are supported by substantial evidence in light of the whole record.

(c) If no aggrieved party petitions for a writ of mandate within the time provided by this section, the decision or order of the state board is not subject to review by any court.

(Added by Stats. 2017, Ch. 327, Sec. 25. (AB 1438) Effective January 1, 2018.)

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HEALTH AND SAFETY CODE - HSC

DIVISION 104. ENVIRONMENTAL HEALTH [106500 - 119406] *(Division 104 added by Stats. 1995, Ch. 415, Sec. 6.)*

PART 12. DRINKING WATER [116270 - 117130] *(Part 12 added by Stats. 1995, Ch. 415, Sec. 6.)*

CHAPTER 4. California Safe Drinking Water Act [116270 - 116755] *(Chapter 4 added by Stats. 1995, Ch. 415, Sec. 6.)*

ARTICLE 8. Violations [116625- 116625.] *(Article 8 added by Stats. 1995, Ch. 415, Sec. 6.)*

116625. (a) The state board, after providing notice to the permittee and opportunity for a hearing, may suspend or revoke any permit issued pursuant to this chapter if the state board determines pursuant to the hearing that the permittee is not complying with the permit, this chapter, or any regulation, standard, or order issued or adopted thereunder, or that the permittee has made a false statement or representation on any application, record, or report maintained or submitted for purposes of compliance with this chapter. If the permittee does not request a hearing within the period specified in the notice, the state board may suspend or revoke the permit without a hearing. If the permittee submits a timely request for a hearing, the hearing shall be before the state board or a member of the state board, in accordance with Section 183 of the Water Code and the rules for adjudicative proceedings adopted under Section 185 of the Water Code. If the permit at issue has been temporarily suspended pursuant to subdivision (b), the notice shall be provided within 15 days of the effective date of the temporary suspension order. The commencement of the hearing under this subdivision shall be as soon as practicable, but no later than 60 days after the effective date of the temporary suspension order, unless the state board grants an extension of the 60 day period upon request of the permittee.

(b) The state board may temporarily suspend any permit issued pursuant to this chapter before any hearing when the action is necessary to prevent an imminent or substantial danger to health. The state board shall notify the permittee of the temporary suspension and the effective date of the temporary suspension and, at the same time, notify the permittee that a hearing has been scheduled. The hearing shall be held as soon as possible, but not later than 15 days after the effective date of the temporary suspension unless the state board grants an extension of the 15-day period upon request of the permittee, and shall deal only with the issue of whether the temporary suspension shall remain in place pending a hearing under subdivision (a). The hearing shall be conducted under the rules for adjudicative proceedings adopted by the state board under Section 185 of the Water Code. The temporary suspension shall remain in effect until the hearing under this subdivision is completed and the state board has made a final determination on the temporary suspension, which shall be made within 15 days after the completion of the hearing unless the state board grants an extension of the 15-day period upon request of the permittee. If the determination is not transmitted within 15 days after the hearing is completed, or any extension of this period requested by the permittee, the temporary suspension shall be of no further effect. Dissolution of the temporary suspension does not deprive the state board of jurisdiction to proceed with a hearing on the merits under subdivision (a).

(Amended by Stats. 2018, Ch. 92, Sec. 153. (SB 1289) Effective January 1, 2019.)

KeyCite Red Flag - Severe Negative Treatment
Overruled in Part by Graves v. People of State of New York ex rel. O'Keefe, U.S.N.Y., March 27, 1939

57 S.Ct. 495
Supreme Court of the United States

BRUSH
v.
COMMISSIONER OF INTERNAL REVENUE.

No. 451.
|
Argued Feb. 4, 1937.
|
Decided March 15, 1937.

Synopsis
On Writ of Certiorari to the United States Circuit Court of Appeals for the Second Circuit.

Petition by William Whitlock Brush to review an order of the Board of Tax Appeals redetermining a deficiency in the tax imposed by the Commissioner of Internal Revenue. The decree of the Board was affirmed (85 F.(2d) 32), and the petitioner brings certiorari.

Reversed.

Mr. Justice ROBERTS and Mr. Justice BRANDEIS dissenting.

West Headnotes (6)

[1] **Internal Revenue**
Governments and subdivisions

The acquisition and distribution by a city of a supply of water involves the exercise of an essential "governmental function," and the salary of the chief engineer of the city's bureau of water supply is not subject to federal income taxation, especially when a considerable part of the water is used to supply public schools, public sewers, fire departments, etc.

57 Cases that cite this headnote

[2] **States**
Status under Constitution of United States, and relations to United States in general

States are as independent of the general government as that government within its sphere is independent of the states.

1 Cases that cite this headnote

[3] **Taxation**
United States entities, property, and securities

A state government may not tax the governmental means and instrumentalities of the federal government.

2 Cases that cite this headnote

[4] **Federal Courts**
Taxation

Whether municipal activities are subject to federal tax is a question of national scope to be resolved in harmony with implied constitutional principles of general application, and is not controlled by the local law as to governmental and corporate functions respecting municipal liability for torts.

46 Cases that cite this headnote

[5] **Internal Revenue**
Governments and subdivisions

That a city in supplying water to its inhabitants makes a charge for the water, or realizes a profit, does not deprive the service of its governmental character as respects liability of a municipal officer to federal income taxation.

23 Cases that cite this headnote

[6] **Internal Revenue**
Public property and institutions

The federal government may not tax the governmental means and instrumentalities of the state government.

Cases that cite this headnote

Attorneys and Law Firms

****495** ***353** Messrs. Boykin C. Wright, of Augusta, Ga., and Charles C. Parlin, of New York City, for petitioner.

Mr. Paul Windels, of New York City (Messrs. Oscar S. Cox and Paxton Blair, both of New York, City, of counsel), argued for the City of New York, as amicus curiae, by special leave of court.

***356** Mr. Julius Henry Cohen, of New York City (Mr. John J. Bennett. Jr., Atty. Gen., of New York, and Mr. Henry Epstein, Sol Gen. of New York, of Albany, of counsel), argued for the State of New York, as amicus curiae, by special leave of court.

***359** Mr. J. Joseph Lilly, of New York City, for certain employees of the City of New York, amicus curiae.

Messrs. James H. Howard and Charles C. Cooper, Jr., both of Los Angeles, Cal., for certain employees of the Metropolitan Water District of Southern California, amicu curiae.

Messrs. Stanley Reed, Sol. Gen., of Washington, D.C., Robert H. Jackson, Asst. Atty. Gen., and Sewall Key, John Paul Jackson, and Berryman Green, Sp. Assts. to Atty. Gen., for respondents.

Opinion

Mr. Justice SUTHERLAND delivered the opinion of the Court.

[1] The question brought here for determination is whether the salary of petitioner as chief engineer of the bureau of water supply of the city of New York is a part of his taxable income for the purposes of the federal income ***360** tax law. The answer depends upon whether the water system of the city was created and is conducted in the exercise of the city's governmental functions. If so, its operations are immune from federal taxation and, as a necessary corollary, 'fixed salaries and compensation paid to its officers and employees in their capacity as such are likewise immune.' People of State of New York ex rel. Rogers v. Graves, 299 U.S. 401, 57 S.Ct. 269, 272, 81 L.Ed. 306 (January 4, 1937).

Petitioners holds his office as chief engineer by statutory authority, with a fixed annual salary of $14,000. He exercises supervision over the engineering details connected ****496** with the supplying of water for public purposes and for consumption by the inhabitants of the city; supervises the protection of the water supply from pollution; and generally exercises control over the operation of the water system, its personnel, expenditure of money, and other matters relating thereto.

In the early history of the city, water was furnished by private companies; but a century or more ago, the city itself began to take over the development and distribution. In 1831, the board of aldermen declared its dissatisfaction with the private control, and resolved that the powers then vested in private hands should be repealed by the Legislature and vested exclusively in the corporation of the city of New York. This, in effect, was initiated in 1833 (Laws 1833, c. 36); and, soon thereafter, the city constructed municipal waterworks, and, with slight exceptions, private control and operation ceased. The sources of water supply furnished by such companies as remain is approaching exhaustion, and the water furnished is of a quality inferior to that supplied by the municipality. From 1833 to the present time, additions to the water supply and system have been steadily made until the cost has mounted to more than $500,000,000; and it is estimated that additional expenditures of a quarter of a billion dollars will be necessary. ***361** The cost of bringing water from the Catskills alone amounted to approximately $200,000,000. The municipal outstanding bonded indebtedness incurred for supplying the city with water amounts to an enormous sum. More than half the entire population of the state is found within the municipal boundaries. The action of the city from the beginning has been taken under legislative authority.

The Commissioner of Internal Revenue having assessed a deficiency tax against petitioner in respect of his salary, petitioner sought a redetermination at the hands of the Board of Tax Appeals. That board sustained the commissioner and decreed a deficiency against petitioner of $256.27 for the year 1931. Upon review, the court below affirmed the decree of the board. (C.C.A.) 85 F. (2d) 32. While the sum involved is small, we granted the

writ of certiorari because of the obvious importance of the question involved. 299 U.S. 536, 57 S.Ct. 190, 81 L.Ed. 395.

The phrase 'governmental functions,' as it here is used, has been qualified by this court in a variety of ways. Thus, in South Carolina v. United States, 199 U.S. 437, 461, 26 S.Ct. 110, 50 L.Ed. 261, 4 Ann.Cas. 737, it was suggested that the exemption of state agencies and instrumentalities from federal taxation was limited to those which were of a strictly governmental character, and did not extend to those used by the state in carrying on an ordinary private business. In Flint v. Stone Tracy Co., 220 U.S. 107, 172, 31 S.Ct. 342, 55 L.Ed. 389, Ann.Cas.1912B, 1312, the immunity from taxation was related to the essential governmental functions of the state. In Helvering v. Powers, 293 U.S. 214, 225, 55 S.Ct. 171, 173, 79 L.Ed. 291, we said that the state 'cannot withdraw sources of revenue from the federal taxing power by engaging in businesses which constitute a departure from usual governmental functions and to which, by reason of their nature, the federal taxing power would normally extend.' And immunity is not established because the state has the power to engage ***362** in the business for what the state conceives to be the public benefit. Id. In United States v. People of State of California, 297 U.S. 175, 185, 56 S.Ct. 421, 424, 80 L.Ed. 567, the suggested limit of the federal taxing power was in respect of activities in which the states have traditionally engaged.

In the present case, upon the one side, stress is put upon the adjective 'essential,' as used in the Flint v. Stone Tracy Co. Case, while, on the other side, it is contended that this qualifying adjective must be put aside in favor of what is thought to be the greater reach of the word 'usual,' as employed in the Powers Case. But these differences in phraseology, and the others just referred to, must not be too literally contradistinguished. In neither of the cases cited was the adjective used as an exclusive or rigid delimitation. For present purposes, however, we shall inquire whether the activity here in question constitutes an essential governmental function within the proper meaning of that term; and in that view decide the case.

There probably is no topic of the law in respect of which the decisions of the state courts are in greater conflict and confusion than that which deals with the differentiation between the governmental and corporate powers of municipal corporations. This ****497** condition of conflict and confusion is confined in the main to decisions relating to liability in tort for the negligence of officers and agents of the municipality. In that field, no definite rule can be extracted from the decisions.[1] It is true that ***363** in most of the state courts, including those in the state of New York, it is held that the operation of waterworks falls within the category of corporate activities; and the city's liability is affirmed in tort actions arising from negligence in such operation. But the rule in respect of such cases, as we pointed out in Trenton v. New Jersey, 262 U.S. 182, 192, 43 S.Ct. 534, 538, 67 L.Ed. 937, 29 A.L.R. 1471, has been 'applied to escape difficulties, in order that injustice may not result from the recognition of technical defenses based upon the governmental character of such corporations'; and the rule is hopelessly indefinite, probably for that very reason.

This is not, however, an action for personal injuries sounding in tort, but a proceeding which seeks in effect to determine whether immunity from federal taxation, in respect of the activity in question, attaches in favor of a state-created municipality—an objective so different in character from that sought in a tort action as to suggest caution in applying as the guide to a decision of the former a local rule of law judicially adopted in order to avoid supposed injustices which would otherwise result in the latter. We have held, for example, that the sale of motorcycles to a municipal corporation for use in its police service is not subject to federal taxation, because the maintenance of such a service is a governmental function. Indian Motorcycle Co. v. United States, 283 U.S. 570, 579, 51 S.Ct. 601, 604, 75 L.Ed. 1277. And while it is true that the weight of authority in tort actions accords with that view, there are state decisions which affirm the liability of a municipality for personal injury resulting from the negligence of its police officials under the circumstances presented in the respective cases dealt with.[2] Nevertheless, our ***364** decision in the Indian Motorcycle Case did not rest in the slightest degree upon a consideration of the state rule in respect of tort actions, but upon a broad consideration of the implied constitutional immunity arising from the dual character of our national and state governments.

[2] **[3]** **[4]** The rule in respect of municipal liability in tort is a local matter; and whether it shall be strict or liberal or denied altogether is for the state which created the municipality alone to decide (Detroit v. Osborne, 135 U.S. 492, 497, 498, 10 S.Ct. 1012, 34 L.Ed. 260)—provided, of course, the Federal Constitution be not infringed. But a federal tax in respect of the activities

of a state or a state agency is an imposition by one government upon the activities of another, and must accord with the implied federal requirement that state and local governmental functions be not burdened thereby. So long as our present dual form of government endures, the states, it must never be forgotten, 'are as independent of the general government as that government within its sphere is independent of the States.' The Collector v. Day, 11 Wall. 113, 124, 20 L.Ed. 122. And, as it was said in Texas v. White, 7 Wall. 700, 725, 19 L.Ed. 227, and often has been repeated, 'the preservation of the States, and the maintenance of their governments, are as much within the design and care of the Constitutions as the preservation of the Union and the maintenance of the National government.' The unimpaired existence of both governments ****498** is equally essential. It is to that high end that this court has recognized the rule, which rests upon necessary implication, that neither may tax the governmental means and instrumentalities of the other. The Collector v. Day, supra, 11 Wall. 113, at page 127, 20 L.Ed. 122. In the light of these considerations, it follows that the question here presented is not controlled by local law, but is a question of national scope to be resolved in harmony with implied constitutional prin ***365** ciples of general application. Compare Workman v. New York City, Mayor etc., 179 U.S. 552, 557, 21 S.Ct. 212, 45 L.Ed. 314. This indicated dissimilarity constitutes a distinction which is fundamental; and we put aside the state decisions in tort actions as inapposite. Compare Atlantic Cleaners & Dyers v. United States, 286 U.S. 427, 43 et seq., 52 S.Ct. 607, 608, 76 L.Ed. 1204.

We thus come to a situation, which the courts have frequently been called upon to meet, where the issue cannot be decided in accordance with an established formula, but where points along the line 'are fixed by decisions that this or that concrete case falls on the nearer or farther side.' Hudson County Water Co. v. McCarter, 209 U.S. 349, 355, 28 S.Ct. 529, 531, 52 L.Ed. 828, 14 Ann.Cas. 560. We are, of course, quite able to say that certain functions exercised by a city are clearly governmental—that is, lie upon the nearer side of the line—while others are just as clearly private or corporate in character, and lie upon the farther side. But between these two opposite classes, there is a zone of debatable ground within which the cases must be put upon one side or the other of the line by what this court has called the gradual process of historical and judicial 'inclusion and exclusion.' Continental Illinois Nat. Bank & Trust Co. v. Chicago, Rock Island & P. Ry. Co., 294 U.S. 648, 670, 55 S.Ct. 595, 603, 79 L.Ed. 1110, and cases cited.

We think, therefore, that it will be wise to confine, as strictly as possible, the present inquiry to the necessities of the immediate issue here involved, and not, by an attempt to formulate any general test, risk embarrassing the decision of cases in respect of municipal activities of a different kind which may arise in the future. Cf. Euclid v. Ambler Realty Co., 272 U.S. 365, 397, 47 S.Ct. 114, 121, 71 L.Ed. 303, 54 A.L.R. 1016; Metcalf & Eddy v. Mitchell, 269 U.S. 514, 523, 46 S.Ct. 172, 174, 70 L.Ed. 384. In the case last named we had occasion to point out the difficulty, albeit the necessity, as cases arise within the doubtful zone, of drawing the line which separate those activities which have some relation to government but are subject to taxation from those which are immune. 'Experience has shown,' ***366** we said, 'that there is no formula by which that line may be plotted with precision in advance. But recourse may be had to the reason upon which the rule rests, and which must be the guiding principle to control its operation. Its origin was due to the essential requirement of our constitutional system that the federal government must exercise its authority within the territorial limits of the states; and it rests on the conviction that each government in order that it may administer its affairs within its own sphere, must be left free from undue interference by the other.'

The public interest in the conservation and distribution of water for a great variety of purposes—ranging from ordinary agricultural, domestic, and sanitary uses, to the preservation of health and of life itself—is obvious and well settled. For the modern city, such conservation and distribution of water in sufficient quantity and in a state of purity is as vital as air. And this vital necessity becomes more and more apparent and pressing as cities increase in population and density of population. It has found, so far, its culminating point in the vast and supreme needs of the city of New York.

One of the most striking illustrations of the public interest in the use of water and the governmental power to deal with it is shown in legislation and judicial pronouncement with respect to the arid-land states of the far west. In some of them, the State Constitution asserts public ownership of all unappropriated nonnavigable waters. In Utah, while it was still a territory, a statute conferred the right upon individual land owners to condemn rights of way across the lands of others in order to convey water to the

former for irrigation purposes, and declared that such condemnation was for a 'public use.' This court upheld the statute. Clark v. Nash, 198 U.S. 361, 25 S.Ct. 676, 49 L.Ed. 1085, 4 Ann.Cas. 1171. We said that what is a public use may depend upon ***367** the facts surrounding ****499** the subject; pointed out the vital need of water for irrigation in the aridland states, a need which did not exist in the states of the east and where, consequently, a different rule obtained; and held that the court must recognize the difference of climate and soil which rendered necessary differing laws in the two groups of states.

Many years ago, Congress, recognizing this difference, passed the Desert Land Act (chapter 107, 19 Stat. 377), by which, among other things, the waters upon the public domain in the arid-land states and territories were dedicated to the use of the public for irrigation and other purposes. Following this act, if not before, all nonnavigable waters then on and belonging to that part of the national domain became publici juris, subject to the plenary control of the aridland states and territories with the right to determine to what extent the rule of appropriation or the common-law rule in respect of riparian rights should obtain. California Oregon Power Co. v. Cement Co., 295 U.S. 142, 155 et seq., 55 S.Ct. 725, 728, 79 L.Ed. 1356. And in Kansas v. Colorado, 206 U.S. 46, 94, 27 S.Ct. 655, 51 L.Ed. 956, this court entertained and decided a controversy between two states involving the right of private appropriators in Colorado to divert waters for the irrigation of lands in that state from a river naturally and customarily flowing into the state of Kansas. It was held (206 U.S. 46, at page 99, 27 S.Ct. 655, 668, 51 L.Ed. 956) that such a controversy rises 'above a mere question of local private right and involves a matter of state interest, and must be considered from that standpoint.' Cf. Hudson County Water Co. v. McCarter, 209 U.S. 349, 355, 28 S.Ct. 529, 52 L.Ed 828, 14 Ann.Cas. 560; New Orleans Gas Light Co. v. Drainage Comm., 197 U.S. 453, 460, 25 S.Ct. 471, 49 L.Ed. 831; Houck v. Little River Drainage District, 239 U.S. 254, 261, 36 S.Ct. 58, 60 L.Ed. 266.

In New Orleans v. Morris, 105 U.S. 600, 602, 26 L.Ed. 1184, the city had conveyed its waterworks to a corporation formed for the purpose of maintaining and enlarging them. ***368** The city received as consideration shares of stock, which a state statute declared should not be liable to seizure for the debts of the city. It was held the statute did not impair the obligation of any contract, since the shares represented the city's ownership in the waterworks which had, before the enactment of the statute, been exempted from seizure and sale. This ruling was put upon the ground that the waterworks were of such public utility and necessity that they were held in trust for the use of the citizens the same as public parks and public buildings.

While these do not decide, they plainly suggest, that municipal watwrworks created and operated in order to supply the needs of a city and its inhabitants are public works and their operation essentially governmental in character. Other decisions of this court, however, more directly support that conclusion.

We recently have held that the bankruptcy statutes could not be extended to municipalities or other political subdivisions of a state. Ashton v. Cameron County Water Imp. Dist., 298 U.S. 513, 56 S.Ct. 892, 895, 80 L.Ed. 1309. The respondent there was a water-improvement district organized by law to furnish water for irrigation and domestic uses. We said (298 U.S. 513, at pages 527, 528, 56 S.Ct. 892, 80 L.Ed. 1309) that respondent was a political subdivision of the state 'created for the local exercise of her sovereign powers. * * * Its fiscal affairs are those of the state, not subject to control or interference by the national government, unless the right so to do is definitely accorded by the Federal Constitution.' In support of that holding, former decisions of this court with respect to the immunity of states and municipalities from federal taxation were relied upon as apposite. The question whether the district exercised governmental or merely corporate functions was distinctly in issue. The petition in bankruptcy alleged that the district was created with power to perform 'the proprietary and/or corporate function of furnishing ***369** water for irrigation and domestic uses. * * *' The district judge (In re Cameron County Water Imp. Dist. No. 1, 9 F.Supp. 103) held that the district was created for the local exercise of state sovereign powers; that it was exercising 'a governmental function'; that its property was public property; that it was not carrying on private business, but public business. That court, having denied the petition for want of jurisdiction, the district submitted a motion for a new trial in which it assigned, among other things, that the court erred in holding that petitioner was created for the purpose of performing governmental functions, 'for the reason that the Courts of ****500** Texas, as well as the other Courts in the Nation, have uniformly held that the furnishing of water for irrigation was purely a proprietary function. * * *' Substantially the same thing was repeated in other assignments of error. In the petition

for rehearing in this court (299 U.S. 619, 57 S.Ct. 5, 81 L.Ed. 457), the district challenged our determination that respondent was a political subdivision of the state 'created for the local exercise of her sovereign powers,' and asserted to the contrary that the facts would demonstrate that 'respondent is a corporation organized for essentially proprietary purposes.' It is not open to dispute that the statements quoted from our opinion in the Ashton Case were made after due consideration, and the case itself of the and the rehearing denied in the light of the issue thus definitely presented. Compare Binghmam v. United States, 296 U.S. 211, 218, 219, 56 S.Ct. 180, 181, 80 L.Ed. 160.

'No higher police duty rests upon municipal authority,' this court said in Columbus v. Mercantile Trust Co., 218 U.S. 645, 658, 31 S.Ct. 105, 109, 54 L.Ed. 1193, 'than that of furnishing an ample supply of pure and wholesome water for public and domestic uses. The preservation of the health of the community is best obtained by the discharge of this duty, to say nothing of the preservation of property from fire, so constant an attendant upon crowded conditions of municipal life.'

***370** In Dunbar v. City of New York, 251 U.S. 516, 40 S.Ct. 250, 251, 64 L.Ed. 384, we sustained a charter provision giving a lien for water charges upon a building in which the water had been used, although the charges had been incurred by tenants and not by the owner, saying, 'And as a supply of water is necessary it is only an ordinary and elgal exertion of government to provide means for its compulsory compensation.'

In German Alliance Ins. Co. v. Homewater Supply Co., 226 U.S. 220, 33 S.Ct. 32, 57 L.Ed. 195, 42 L.R.A.(N.S.) 1000, the city of Spartanburg had entered into a contract with the respondent by which the latter was empowered to supply the city and its inhabitants with water suitable for fire, sanitary, and domestic purposes. The petitioner had issued a policy of fire insurance upon certain property, which was destroyed by fire. It paid the amount of the loss, and took an assignment from the insured of all claims and demands against any person arising from or connected with the loss. It brought suit against the respondent on the ground that the fire could easily have been extinguished if respondent had complied with its contract. This court held that the action was not maintainable for reasons which appear in the opinion. The city, it was said, was under no legal obligation to furnish water; and it did not subject itself to a new or greater liability because it voluntarily undertook to do so (226 U.S. 220, at pages 227, 228, 33 S.Ct. 32, 34, 57 L.Ed. 195, 42 L.R.A. (N.S.) 1000). 'It acted in a governmental capacity, and was no more responsible for failure in that respect than it would have been for failure to furnish adequate police protection.'

We conclude that the acquisition and distribution of a supply of water for the needs of the modern city involve the exercise of essential governmental functions, and this conclusion is fortified by a consideration of the public uses to which the water is put. Without such a supply, public schools, public sewers so necessary to preserve health, fire departments, street sprinkling and cleaning, public buildings, parks, playgrounds, and public baths ***371** could not exist. And this is equivalent, in a very real sense, to saying that the city itself would then disappear. More than one-fourth of the water furnished by the city of New York, we are told by the record, is utilized for these public purposes. Certainly, the maintenance of public schools, a fire department, a system of sewers, parks, and public buildings, to say nothing of other public facilities and uses, calls for the exercise of governmental functions. And so far as these are concerned, the water supply is a necessary auxiliary, and, therefore, partakes of their nature. People of State of New York ex rel. Rogers v. Graves, 299 U.S. 401, 57 S.Ct. 269, 81 L.Ed. 306 (January 4, 1937). Moreover, the health and comfort of the city's population of 7,000,000 souls, and in some degree their very existence, are dependent upon and adequate supply of pure and wholesome water. It may be, as it is suggested, that private corporations would be able and willing to undertake to provide a supply of water for all purposes; but if the state and city of New York be of opinion, as they evidently are, that the service should not be intrusted to private hands, but should be rendered by the city itself as an appropriate means of discharging its duty to protect the health, safety, and lives of its inhabitants, we do not ****501** doubt that it may do so in the exercise of its essential governmental functions.

We find nothing that detracts from this view in the fact that in former times the business of furnishing water to urban communities, including New York, in fact was left largely, or even entirely, to private enterprise. The tendency for many years has been in the opposite direction, until now in nearly all the larger cities of the country the duty has been assumed by the municipal authorities. Governmental functions are not to be regarded as nonexistent because they are held in abeyance, or because they lie dormant, for a time. If they

be by their nature governmental, they are none the less so because the use of them has had a recent beginning.

***372** The principle finds illustration in our decision in Shoemaker v. United States, 147 U.S. 282, 297, 13 S.Ct. 361, 389, 37 L.Ed. 170, where it was held that land taken by an exercise of the power of eminent domain for the establishment of Rock Creek Park in the District of Columbia was taken for a public use, and that the amount required to be paid was validly assessed upon lands in the district specially benefited thereby. At the beginning of the opinion in that case, this court said: 'In the memory of men now living, a proposition to take private property, without the consent of its owner, for a public park, and to assess a proportionate part of the cost upon real estate benefited thereby, would have been regarded as a novel exercise of legislative power.' It was pointed out that Central Park in New York was the first place provided for the inhabitants of any city or town in the United States as a pleasure ground for rest and exercise in the open air, but that in 1892, when the opinion was written, there was scarcely a city of any considerable size in the country that did not have, or had not projected, such parks.

[5] Respondent contends that the municipality, in supplying water to its inhabitants, is engaged in selling water for profit; and seems to think that this, if true, stamps the operation as private and not governmental in character. We first pause to observe that the overhead due to the enormous cost of the system, and the fact that so large a proportion of the water is diverted for public use, rather plainly suggests that no real profit is likely to result. And to say that, because the city makes a charge for furnishing water to private consumers, it follows that the operation of the water works is corporate and not governmental, is to beg the question. What the city is engaged in doing in that respect is rather rendering a service than selling a commodity. If that service be governmental, it does not become private because a charge is made for it, or a profit realized. A state, for example, ***373** constructs and operates a highway. It may, if it choose, exact compensation for its use from those who travel over it (see Bingaman v. Golden Eagle Western Lines, 297 U.S. 626, 628, 56 S.Ct. 624, 80 L.Ed. 928); but this does not destory the claim that the maintenance of the highway is a public and governmental function. The state or the city may exact a tuition charge for instruction in the public schools; but thereby the maintenance of the public schools does not cease to be a function of the government. The state exacts a fee for issuing a license or granting a permit; for recording a deed; for rendering a variety of services in the judicial department. Do these various services thereby lose their character as governmental functions? The federal Post Office Department charges for its services; but no one would question the fact that its operation calls into exercise a governmental function.

The contention is made that our decisions in South Carolina v. United States, 199 U.S. 437, 461, 462, 26 S.Ct. 110, 50 L.Ed. 261, 4 Ann.Cas. 737, and Flint v. Stone Tracy Co., 220 U.S. 107, 172, 31 S.Ct. 342, 55 L.Ed. 389, Ann.Cas.1912B, 1312, are to the effect that the supplying of water is not a governmental function; but in neither case was that question in issue, and what was said by the court was wholly unnecessary to the disposition of the cases and merely by way of illustration. Expressions of that kind may be respected, but do not control in a subsequent case when the precise point is presented for decision. Osaka Shosen Kaisha Line v. United States, 300 U.S. 98, 57 S.Ct. 356, 81 L.Ed. 532 (February 1, 1937), and authorities cited. The prcise point is presented here, has been fully considered, and is decided otherwise. Neither Ohio v. Helvering, 292 U.S. 360, 54 S.Ct. 725, 78 L.Ed. 1307, nor Helvering v. Powers, 293 U.S. 214, 55 S.Ct. 171, 79 L.Ed. 291, relied upon by respondent, is in point. What has already been said distinguishes those cases from the one now under consideration.

****502** We have not failed to give careful consideration to Blair v. Byers (C.C.A.) 35 F.(2d) 326, and Denman v. Com'r Int. Rev. (C.C.A.) 73 F.(2d) 193, both of which take a view contrary ***374** to that which we have expressed. To the extent of this conflict, those cases are disapproved. Both rely on South Carolina v. United States and Flint v. Stone Tracy Co., supra, which we have already distinguished.

Reversed.

Mr. Justice STONE and Mr. Justice CARDOZO, concurring in the result:

We concur in the result upon the ground that the petitioner has brought himself within the terms of the exemption prescribed by Treasury Regulation 74, Article 643, which for the purposes of this case may be accepted as valid, its validity not being challenged by counsel for the government.

In the absence of such a challenge, no opinion is expressed as to the need for revision of the doctrine of implied immunities declared in earlier decisions.

We leave that subject open.

Mr. Justice ROBERTS, dissenting.

I regret that I am unable to concur in the opinion of the court. I think that the judgment should be affirmed.

There is no occasion now to discuss the dual character of our form of government, and the consequent dual allegiance of a citizen of a state to his state and to the United States, to elaborate the thesis that the integrity of each government is to be maintained against invasions by the other or to reiterate that the implied immunity of the one from taxation by the other springs from the necessity that neither shall, by the exercise of the power to tax, burden, hinder, or destory the operation or existence of the other. There is universal recognition of the truth of these tenets, and of their fundamental relation to the preservation of the constitutional framework of the nation. Our difficulties arise, not in their statement as guiding principles, but, as in this instance, in their application to specific cases.

***375** The frank admissions of counsel at the bar concerning the confusion and apparent inconsistency in administrative rulings as to the taxability of compensation of municipal employees seem to call for an equally candid statement that our decisions in the same field have not furnished the executive a consistent rule of action. The need of equitable and uniform administration of tax laws, national and state, and the just demand of the citizen that the rules governing the enforcement of those laws shall be ascertainable require an attempt at rationalization and restatement.

It seems to me that the reciprocal rights and immunities of the national and a state government may be safeguarded by the observance of two limitations upon their respective powers of taxation. These are that the exactions of the one must not discriminate against the means and instrumentalities of the other and must not directly burden the operations of that other. To state these canons otherwise, an exaction by either government which hits the means or instrumentalities of the other infringes the principle of immunity if it discriminates against them and in favor of private citizens or if the burden of the tax be palpable and direct rather than hypothetic and remote. Tested by these criteria the imposition of the challenged tax in the instant case was lawful.

The petitioner is a citizen of New York. By virtue of that status, he is also a citizen of the United States. He owes allegiance to each government. He derives income from the exercise of his profession. His obligation as a citizen is to contribute to the support of the governments under whose joint protection he lives and pursues his calling. His liability to fulfill that obligation to the national government by payment of income tax upon his salary would be unquestioned were it not for the character of his employer. If the water works of New York ***376** City were operated by a private corporation under a public franchise and if the petitioner held a like position with the corporation, there could be no question that the imposition of a federal income tax, measured by his compensation, would be justified. If petitioner, instead of holding a so-called official position under the municipal goverment of New York City, were consulted from time to time with respect to its water problems his compensation would be subject to income tax. Metchlf & Eddy v. Mitchell, 269 U.S. 514, 46 S.Ct. 172, 70 L.Ed. 384. He is put into an untaxable class upon the theory that as an official of the municipality, which in turn is an arm of the state, he is an 'instrumentality' ****503** of the state, and to tax him upon his salary is to lay a burden upon the state government which, however trifling, is forbidden by the implied immunity of the state from burdens imposed by the United States. The petitioner seeks to show the reality of the supposed burden by the suggestion that if his salary and the compensation of others employed by the city is subject to federal income tax, the municipality will be compelled to pay higher salaries in order to obtain the services of such persons and the consequent aggregate increase in outlay will entail a heavy financial load. We know, however, that professional services are offered in the industrial and business field; and that while there is no hard and fast standard of compensation, and men bargain for their rewards, salaries do bear some relation to experience and ability. There is a market in which a professional man offers his services and municipalities are bidders in that market. We know further that those in private employment holding positions comparable to that of the petitioner pay a tax equal to that levied upon him. It is clear that any consideration of the petitioner's immunity from federal income tax would be altogether remote, impalpable, and unascertainable in influencing

*377 him to accept a position under the municipality rather than under a private employer.

In reason and logic it is difficult to differentiate the present case from that of a private citizen who furnishes goods, performs work, or renders service to a state or a municipality under a contract or an officer or employee of a corporation which does the same. Income tax on the compensation paid or the profit realized is a necessary cost incident to the performance of the contract and as such must be taken into account in fixing the consideration demanded of the city government. In quite as real a sense, as in this case, the taxation of income of such persons and, as well, the taxation of the corporation itself, lays a burden upon the funds of the state or its agency. Nevertheless, the courts have repeatedly declared that the doctrine of immunity will not serve to exempt such persons or corporations from the exaction.

The importance of the case arises out of the fact that the claimed exemption may well extend to millions of persons (whose work nowise differs from that of their fellows in private enterprise) who are employed by municipal subdivisions and districts throughout the nation and that, on the other hand, the powers of the states to tax may be inhibited in the case of hundreds of thousands of similar employees of federal agencies of one sort or another. Such exemptions from taxation ought to be strictly limited. They are essentially unfair. They are unsound because federal or state business ought to bear its proportionate share of taxation in order that comparison may be made between the cost of conducting public and private business.

We are here concerned only with the question of the taxation of salaries or compensation received by those rendering to a municipality services of the same kind as are rendered to private employers and need not go be *378 yond the precise issue here presented. We have no concern with the exaction of a sales tax by the federal goverment on sales to a state government or one of its subdivisions, or the reverse; we are not called upon to define the power to levy taxes upon real property owned by a state or by the national government. We have no occasion to discuss the power of either government to impose excise taxes upon transactions of the other or upon the evidence of such transactions. Nor are we called upon here to determine the validity of a nondiscriminatory tax upon the salary of a governmental officer whose duties and functions have no analogue in the conduct of a business or the pursuit of a profession, but are both peculiar to and essential to the operation of government. The sole question here is whether one performing work or rendering service of a type commonly done or rendered in ordinary commercial life for gain is exempt form the normal burden of a tax on that gain for the support of the national government because his compensation is paid by a state agency instead of a private employer. I think the imposition of a tax upon such gain where, as here, the tax falls equally upon all employed in like occupation, and where the supposed burden of the tax upon state government is indicrect, remote, and imponderable, is not inconsistent with the principle of immunity inherent in the constitutional relation of state and nation.

Mr. Justice BRANDEIS joins in this opinion.

All Citations

300 U.S. 352, 57 S.Ct. 495, 81 L.Ed. 691, 108 A.L.R. 1428, 37-1 USTC P 9175, 18 A.F.T.R. 1156, 1937-1 C.B. 217

Footnotes

1 This is brought out in a careful and detailed review by Professor Borchard in that portion of his general discussion of 'Government Liability in Tort' dealing with municipal corporations, to be found in 1924-5) 34 Yale L.J. 129—143, 229—258, in the course of which the courts 129): 'Disagreement among the courts as to many customary muncipal acts and functions may almost be said to be more common than agreement and the elaboration of the varying justifications for their classification is even less satisfying to any demand for principle in the law. Indeed, so hopeless did the effort of the courts to make an appropriate classification of functions appear to the Supreme Court of South Carolina that they determined to abandon the distinction between governmental and corporate acts.'

2 See Herron v. Pittsburg, 204 Pa. 509, 513, 54 A. 311, 93 Am.St.Rep. 798; Jones v. City of Sioux City, 185 Iowa, 1178, 1185, 170 N.W. 445, 10 A.L.R. 474; Twist v. City of Rochester, 37 App.Div. 307; 55 N.Y.S. 850. Compare Kunz v. City of Troy, 104 N.Y. 344, 348, 10 N.E. 442, 58 Am.Rep. 508, with Altvater v. Mayor, etc., of Baltimore, 31 Md. 462.

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209 Cal. 105, 287 P. 475

THE CITY OF SAN DIEGO (a Municipal Corporation), Plaintiff and Appellant,
v.
CUYAMACA WATER COMPANY (a Corporation) et al., Defendants and Appellants;
THE CITY OF EL CAJON (a Municipal Corporation) et al., Interveners and Appellants.

Supreme Court of California.
L. A. No. 10171.
March 21, 1930.

[1]
MUNICIPAL CORPORATIONS—CITY OF SAN DIEGO—ACT OF INCORPORATING—CONSTRUCTION—PUEBLO OF SAN DIEGO.
The use of the word "presidio" in the act of 1850 incorporating "the city of San Diego" instead of the word "pueblo" was a mistake and said city succeeded to the rights of the former pueblo of San Diego.

[2]
ID.—WATERS AND WATER RIGHTS—RIGHTS OF CITY AS SUCCESSOR OF PUEBLO.
The pueblo of San Diego, by virtue of its organization as such, became entitled, under the Spanish and Mexican laws, to a prior or preferential right to the waters of San Diego River passing above or underground through the arena constituting the pueblo lands.

[3]
ID.—RULE OF PROPERTY—STARE DECISIS.
The proposition decided by a long line of decisions of the Supreme Court of California that Spanish or Mexican pueblos organized in California under the laws, institutions or regulations of Spain or Mexico during their successive governments thereof, and the successors of such pueblos, have a prior and paramount right to the use of waters of rivers and streams flowing through the territory which constituted the pueblo necessary for ordinary municipal purposes and the use of inhabitants, has become a rule of property which, under the rule of *stare decisis,* cannot be disturbed.

[4]
ID.—TRANSFER OF MISSION OF SAN DIEGO—CONSTRUCTION OF INSTRUMENT.
The document executed by the viceroy of the King of Spain over Mexico dated the seventeenth day of December, 1773, approving the removal of the Mission of San Diego from its former location near the presidio on San Diego Bay to a new site, did not purport to transfer the waters of San Diego River to the Mission of San Diego.

[5]
ID.—PRESIDIOS, PUEBLOS AND MISSIONS—ORIGINAL PLANS.
Under the original Spanish plans for the settlement of Alta California provision was made for the foundation and development of presidios, pueblos and missions, which were to function harmoniously within their respective jurisdictions, the presidios being purely military foundations, the pueblos civil and political and the missions purely ecclesiastical.

[6]
ID.—ESTABLISHMENT OF PUEBLO OF SAN DIEGO—VESTING OF WATER RIGHTS.
Upon the establishment of the pueblo of San Diego in the year 1843 it became invested with whatever land and water rights it was entitled to under the laws, institutions and regulations of Spain and Mexico, which rights were not interfered with by similar or superior rights in the Mission of San Diego, which had then ceased or was about to cease.

[7]
ID.—MISSION LANDS—TITLE—LACK OF CONFIRMATION BY LAND COMMISSIONERS.
Any claim to land through the Mission of San Diego lapsed and ceased to exist by reason of the additional fact that no claim thereto was ever presented to the Board of Land Commissioners as required by the act of Congress of March 3, 1851.

[8]
ID.—ARGUELLO GRANT—RIGHTS UNDER.

Lands of the Mission San Diego which became a part of the public domain by their secularization and thereafter were conveyed by the government by private grant to Santiago Arguello, the title being confirmed by the federal land commission, which grant was subsequent to the establishment of the pueblo of San Diego, were subject to the right of said pueblo in the waters of the San Diego River passing through its area.

[9]
ID.—"GOVERNMENTAL" RIGHTS.
The rights of the City of San Diego, as the successor of the pueblo of San Diego, in the waters of the San Diego River, required for the needs of the pueblo and the city and the inhabitants of each, were essentially "governmental" in character, as distinguished from "proprietary" rights.

[10]
ID.—ACT OF CONGRESS OF JULY 26, 1866, AND JANUARY 12, 1891— CONSTRUCTION.
The act of Congress of July 26, 1866, and the supplementary act of January 12, 1891, being subsequent to the vesting in the City of San Diego of whatever rights in the waters of San Diego River it had succeeded to from the pueblo of San Diego, conferred no rights superior to the already vested rights of said city.

[11]
ID.—PRESCRIPTIVE RIGHTS IN WATER—ADVERSE USER.
A prescriptive right in the waters of a flowing stream arises primarily by the adverse user of the waters by the claimant under a claim of right which has been acquiesced in for the required term of years by the person otherwise entitled to the same.

[12]
ID.—INVASION OF RIGHT—TITLE BY PRESCRIPTION.
In order to establish a right by prescription in the waters of a stream, the acts by which it is sought to establish it must operate as an invasion of the right of the party against whom it is set up, and the enjoyment relied upon must be of such a character as to afford ground for an action by the other party; and while there is sufficient water in a flowing river to supply the wants and demands of all parties claiming rights in it, its use by one of them could not be an invasion of the right of any other.

[13]
ID.—DEFENSES OF PRESCRIPTION AND LACHES—RULE.
With reference to the defenses of prescription and laches, it is a general rule that no invasion of the rights of property which are held by a public or municipal corporation in perpetual trust for public uses can be held sufficient to furnish the basis of a defense based solely upon prescription or laches; and the right of the City of San Diego in the waters of the San Diego River, being a trust, cannot be lost by adverse user or laches.

[14]
ID.—ESTOPPEL—NATURE OF.
The defense of estoppel rests upon the doctrine that a right conceded for the purposes of such defense to exist in a party, he shall not be permitted to assert against another to the latter's injury because of the existence and proof of certain facts and conditions which would render its assertion inequitable.

[15]
ID.—PREFERENTIAL RIGHTS—KNOWLEDGE OF—PRESUMPTION.
The defendants in this case, as a matter of law, are held to have had knowledge of the existence in the City of San Diego of its prior and preferential rights in and to varying amounts of water in the San Diego River according to its expanding needs, not only because all persons are held to a knowledge of the law, but because the Supreme Court from an early date and at different intervals down to the commencement of the present action uniformly held that cities founded upon previous pueblos had a prior and preferential right to the waters of streams flowing through them.

[16]
ID.—PUBLIC TRUST—MUNICIPAL CORPORATION—ESTOPPEL.
Even if it be conceded that a right based upon estoppel could arise by virtue of mere acquiescence in its assertion as between private parties, no such right would come into being as against a municipal corporation, founded upon its mere acquiescence or that of its officials in the diversion

by any number of appropriators, or even of upper riparian owners of the waters of a stream to the use of which such public or municipal corporation was entitled as a portion of its public rights to properties held in perpetual trust for a public use.

[17]
ID.—TREATY OF GUADALUPE-HIDALGO—CONSTRUCTION—PROPERTY RIGHTS—STATUTES OF SPAIN AND MEXICO.
The United States in taking over the territory known as Alta California, under the treaty of Guadalupe-Hidalgo, agreeing therein to recognize the interests and protect the ownership of certain land titles within said territory, did not take over and agree to adopt the statutes of limitations of either Spain or Mexico as applicable to the lands or waters devoted to a public use.

[18]
ID.—ESTOPPEL IN PAIS—KNOWLEDGE OF FACTS—RELIANCE UPON.
It is of the essence of an estoppel *in pais* that the party asserting such estoppel should not only have been ignorant of the true statement of the facts, but that he should have relied upon the representation or admission of the adverse party; and it is held in this action that the elements of estoppel are entirely lacking.

[19]
ID.—ACTION FOR DECLARATORY JUDGMENT—JURISDICTION.
Where the plaintiff merely seeks to establish a prior and paramount right in certain waters for municipal uses and the uses of its inhabitants, the action is declaratory in character and it was error for the court to attempt to give its determination an effect beyond a declaratory judgment.

APPEAL from a judgment of the Superior Court of San Diego County. M. W. Conkling, Judge. Modified and affirmed.

The facts are stated in the opinion of the court.

***108** Shelley J. Higgins and Jas. E. O'Keefe, City Attorneys, Arthur F. H. Wright and Harry S. Clark, Deputies City Attorney, and Hunsaker, Britt & Cosgrove for Plaintiff and Appellant.
Crouch & Sanders, Hugh A. Sanders, Sweet, Sterns & Forward, Philip Storer Thacher, E. V. Winnek, Sterns, ***109** Luce & Forward, O'Melveny, Tuller & Myers, W. A. Sloane and Sloane & Sloane for Defendants, Interveners and Appellants.

RICHARDS, J.

A rehearing was granted herein after the decision of this cause by the court in bank in order that an even more full and careful consideration might be given to the important questions involved in this appeal. Upon such consideration we have concluded to reaffirm the conclusions arrived at in our former decision, and to adopt the language of such decision, with such emendations as may be required in view of the further light which has been shed upon the subject by former and further counsel for the respective parties, as well as by the briefs of *amici curiae* filed herein.

This action was instituted by the City of San Diego, a municipal corporation, having for its purpose the determination of the question of its title to certain rights in and to the waters of the San Diego River to which the original defendants in said action were asserting and exercising certain adverse claims. The precise nature of this action was aptly described in certain earlier appeals to this court. In the case of *Cuyamaca Water Co. v. Superior Court,* 193 Cal. 584, 588 [33 A. L. R. 1316, 226 Pac. 604, 605], it was thus stated: "In the pending quiet title action it will not, of course, be determined that the city is or is not entitled to any particular quantity of water. If the litigation terminates favorably to the plaintiff the only right which will be established and determined to be vested in the city will be a right to the water and the use thereof prior and paramount to the defendants' rights therein, and then only to the extent necessary for the needs of the city and its inhabitants. The amount needed is necessarily uncertain and conjectural and dependent upon conditions such as rainfall and other established sources of supply. The subject matter of the action is the establishment of the priority of right and not the quantity of water to be taken." In the case of *City of San Diego v. Andrews et al.,* 195 Cal. 111 [231 Pac. 726], which was a proceeding in *mandamus* to compel the respondent judge of the Superior Court of the county of San Diego to proceed to hear and determine the present cause, this court restated in substance the purpose of the instant

case. The importance of the foregoing clear concept of ***110** the nature and purpose of the present action will appear as we proceed with the consideration of the several issues involved therein. The original defendants in this action were Cuyamaca Water Company, a corporation; Cuyamaca Water Company, a copartnership, and certain individuals and the survivors and personal representatives of the members of said copartnership. The action was commenced in the early part of the year 1923, the amended complaint therein being served and filed on June 9, 1923. The defendants united in filing their demurrer to said amended complaint on June 18, 1923, said demurrer being both general and special and being based upon thirteen alleged grounds of demurrer. The demurrer was upon hearing overruled; whereupon and in December, 1923, said defendants served and filed their answer, embracing seventeen separate defenses presented by the defendants jointly, and also a number of special defenses urged on the part of certain of said defendants individually. The defendants also presented and filed at the same time their cross-complaint, wherein they asserted affirmatively the particular foundation of their adverse claims to certain portions of the waters of the San Diego River over which the plaintiff was undertaking to have established its alleged prior and preferential right. To the defendants' answers and cross-complaint the plaintiff on December 21, 1923, served and filed its demurrer upon forty-two specified grounds. Thereafter and while said demurrer was pending and undisposed of, certain other parties appeared separately in the action with applications for leave to intervene. These were one Carroll H. Smith, who in his proffered complaint in intervention alleged himself to be a resident, citizen and taxpayer of the city of La Mesa in the county of San Diego, and also an owner of property within the La Mesa Lemon Grove and Spring Valley Irrigation District in said county, which said city and said irrigation district had for the sole source of water supply of each the waters of the San Diego River, which said waters they and each of them were receiving under and by virtue of an agreement with the defendant Cuyamaca Water Company, a copartnership, with which copartnership and the surviving members thereof the said petitioner wished to join in resisting the claim of prior and preferential right thereto asserted by said plaintiff. The ***111** said Carroll H. Smith also alleged himself to be the owner of certain lands within the so-called Ex-Mission Rancho and to be thereby entitled to certain paramount and exclusive rights to the use of the waters of said river derived from grants of said rancho to his predecessors made by and under the Spanish crown. The La Mesa Lemon Grove and Spring Valley Irrigation District also and at the same time presented its application for leave to intervene in the action, basing its alleged right so to do upon its proffered complaint in intervention, wherein were set forth substantially the same averments as were embodied in the complaint in intervention of said Smith. In addition to these, the city of El Cajon, a municipal corporation, situate in the county of San Diego, also petitioned for leave to intervene, making substantially the same allegations as to the source and right of water supply from the waters of the San Diego River as were set forth by said other applicants for leave to intervene. The court upon a hearing permitted the several parties to file their respective complaints in intervention, and in due course the plaintiff, City of San Diego, presented and filed its several demurrers thereto. Thereafter the demurrers of the plaintiff to the answer and cross-complaint of the original defendants and also to the complaints in intervention of said several interveners were submitted to the trial court for decision; and the court in ruling thereon sustained the said plaintiff's demurrer to certain specified portions of the original defendants' answer and cross-complaint without leave to amend, and also sustained the demurrer of the plaintiff to certain other specified portions of said defendants' answer and cross-complaint with leave to amend. The trial court also at the same time overruled the plaintiff's demurrers to the several complaints in intervention. The effect of these several rulings by the trial court was that of determining as a matter of law that the City of San Diego had by virtue of its incorporation and right of succession become the successor and owner of those certain prior and preferential rights to the waters of the San Diego River with which, from its inception the pueblo of San Diego, as established in the year 1834, had become invested by virtue of its formation under the laws of Spain and Mexico. The question as to whether as a matter of law the plaintiff City of San Diego had originally become ***112** invested with these prior and preferential rights in and to the waters of the San Diego River by virtue of its succession to whatever rights of that nature existed in the pueblo of San Diego is thus presented upon this appeal, involving as it does the correctness of the aforesaid rulings of the trial court touching that point upon demurrer. As to the issues presented by those other specified portions of the original defendants' answer and cross-complaint, and which involve the question as to whether the plaintiff had lost its original superior right to the waters of the San Diego River derived from

said source, by prescription, or by laches or by estoppel operating in favor of some or all of said defendants and their successors in interest, the trial court permitted said defendants to present amended pleadings, and upon their doing so overruled the plaintiff's later demurrers thereto; and having already overruled the plaintiff's demurrers to the several complaints in intervention, and the interveners having also amended their pleadings so as to embrace and conform to the defendants' amended answer and cross-complaint, and the plaintiff having answered the interveners' complaints and the amended cross-complaint of the defendants, the cause was thus brought to issue and proceeded to trial upon the disputed questions of fact thus presented. The cause was tried without a jury; a large mass of evidence was presented involving the testimony of many witnesses and the introduction of numerous exhibits, thus creating a record of unusual proportions, upon which were superimposed briefs and arguments of counsel evincing extraordinary effort, diligence and research. The cause was finally submitted to the trial court for its decision and in due course the findings and conclusions of law of the trial court were filed, the correctness and sufficiency of which furnish the weighty burden laid upon this court in its determination of the merits of the several appeals which have been taken and are being prosecuted by all of the parties to this action.

(1) At the outset of our re-examination of the questions thus submitted to our determination it has been strenuously insisted by counsel for certain of the interveners herein that the City of San Diego did not by the terms of its incorporation under the new dominion become the successor to the rights of the former pueblo of San Diego, for the reason, ***113** as urged by counsel, that by the first act of its incorporation, adopted by the legislature of California in the year 1850, it was only "the Presidio of San Diego" which was purported to be thereby incorporated and known as "the City of San Diego." It is true that in the body of said act of incorporation the area to be covered thereby is described as being "known as the Presidio of San Diego." But it is also true that the area to be included within such incorporation embraced those lands which were "included in the survey made by Lieutenant Cave J. Couts, First Dragoons, U. S. A., for the ayuntamiento," and which embraced an area of ten square miles. It is a series of significant facts that said area included the then existing pueblo of San Diego, of which the ayuntamiento referred to therein was the ayuntamiento, or in other words the town council composed of the alcaldes, the regidores and certain other municipal officers which were strictly the officers of the pueblo and none of whom were officers of a presidio, which was purely a military as distinguished from a civil foundation. The act further provided that in limiting the area to be known as the City of San Diego to ten square miles it was not to be construed so as "to divest or in any manner prejudice any rights or privileges which the presidio may hold to any land beyond the limits of the charter," and it was further provided that the corporation created by this act "shall succeed to all the legal rights and claims of the Presidio of San Diego and shall be subject to all the liabilities incurred and the obligations created by the ayuntamiento of said Presidio." These references should make it sufficiently plain that the use of the term presidio instead of pueblo in said act of incorporation was a misnomer, and that it was the intention of the act of incorporation to impose certain civil and political rights under the new dominion upon the area which was already, by virtue of its pueblo origin, in the enjoyment of certain civil and political rights under the old dominion. It may be fairly surmised that this blunder in the way of designation was presently discovered and was promptly sought to be remedied, since we find that the act of incorporation above referred to was repealed by the legislature in 1852 (Stats. 1852, p. 223) and that by said act another form of incorporation was provided, to be known as "the Trustees of the City of San ***114** Diego"; and that by an act of the same legislature (Stats. 1852, p. 225) the said "Trustees of the City of San Diego" were declared to be a body corporate under the style of "The President and Trustees of the City of San Diego," and were authorized and directed by such corporate name and style to "present before the board of land commissioners created by act of congress for the settlement of land titles in this state, or any court before which it may be necessary to appear for the purpose of prosecuting or defending the right or claim which the City or Pueblo of San Diego may have to land known as the common lands of San Diego." It further appears that, pursuant to such direction, the aforesaid officials of the City of San Diego, purporting to represent it in its capacity as the successor of the pueblo of San Diego, did duly present before the aforesaid congressional commission the claim of said city for the confirmation of its title "to the pueblo lands of San Diego" and that according to the recitals of the certified copy of the patent to the City of San Diego presented in evidence herein (Plaintiff's Exhibit No. 7), it was adjudged, in the course of the proceedings before said commission, "that the claim

of said petitioner is valid and it is, therefore, decreed that the same be confirmed. The land of which confirmation is made is situated in the county of San Diego and is known as the pueblo or town lands of San Diego." It further appears from the record herein that the state legislature from time to time adopted certain special acts authorizing the board of trustees of the City of San Diego to deal in different ways with the pueblo lands of said city (Stats. 1855, p. 206; Stats. 1861, p. 270; Stats. 1867-68, p. 8), and it still further appears that the legislature in 1870 re-established the boundaries and areas of the City of San Diego as comprising "all that tract of land known as the Pueblo of San Diego," etc., and that in the same year the legislature adopted "An act to legalize, ratify and confirm deeds of conveyance and grants of land within the pueblo lands of San Diego." And it yet further appears that upon several occasions from the year 1872 on, the state legislature has adopted successive acts re-incorporating the City of San Diego, in each of which it is expressly stated that "all that tract of land known as the Pueblo of San Diego … shall henceforth be known as the City of San Diego." (Stats. ***115** 1871-72, p. 285; Stats. 1875-76, p. 806; Stats. 1889, p. 302.) It would seem to sufficiently appear from the foregoing statements of both law and fact that the findings and conclusions of law of the trial court were supported by an amplitude of evidence, wherein it expressly found and determined:

That about the year 1834 there was founded, and until about the year 1850 there continued to exist upon what is now the site of the City of San Diego, a certain Mexican pueblo then designated as the Pueblo of San Diego; that the location and site of said Mexican Pueblo of San Diego at the time the same was founded, was, ever since has been, and now is, situated and located upon the banks of a certain unnavigable river or stream, then, ever since and now known as the San Diego river; that said stream at the time of the organization of said Pueblo of San Diego and at all times thereafter during its existence flowed into and through said pueblo, and the banks and bed of said stream from the mouth to the easterly territorial limits of said pueblo a distance of approximately five miles, were located and lay entirely within the territorial limits and formed a part of the lands and waters of said Pueblo of San Diego.

That said Pueblo of San Diego and the inhabitants thereof from its organization during the entire term of its existence, enjoyed, asserted and exercised a preference or prior right to the use of the waters of said San Diego river for the benefit of said pueblo and the inhabitants thereof.

That said preference or prior right of said pueblo and of the inhabitants thereof to the use of all the waters of said river necessary to supply the domestic wants of the inhabitants of said pueblo, to irrigate the lands thereof, and for other municipal purposes within the general limits of said pueblo, was a right, and the distribution of said waters for such purposes by the pueblo authorities was a trust created, imposed and recognized by the laws, orders and decrees of the government of the Kingdom of Spain and the Republic of Mexico.

That the plaintiff herein, The City of San Diego, was incorporated on or about March 27, 1850, and thereupon became the successor and ever since has been the successor of said Mexican Pueblo of San Diego, and as such successor to said Mexican Pueblo succeeded to and acquired all the rights and privileges theretofore held or exercised by said ***116** Pueblo of San Diego and in particular as the successor of said Mexican Pueblo of San Diego The City of San Diego succeeded to and acquired all the rights and privileges theretofore enjoyed, asserted and exercised by said Pueblo of San Diego in and to the waters of said San Diego river; that since said incorporation said The City of San Diego, as the successor to said Mexican Pueblo, has at all times enjoyed, asserted and exercised a right of priority in and to the use of all the waters of said San Diego river necessary or convenient for the use of said The City of San Diego and the inhabitants thereof, and has not in any manner, nor to any extent, surrendered, forfeited or abandoned said right, save and except in the manner and to the extent hereinafter found and declared.

"That the San Diego river is an unnavigable natural stream of water located wholly within the county of San Diego, state of California, and takes its rise in the Cuyamaca Mountains in said county on the southerly and westerly slopes thereof, and flows in a southwesterly direction approximately fifty miles from its source until it reaches the easterly boundary of The City of San Diego, formerly the easterly boundary of said Pueblo of San Diego, from which point said river flows westerly through said The City of San Diego a distance of approximately five miles, discharging its waters into the Pacific Ocean through Mission Bay in said city and county."

It will thus indisputably appear that by the foregoing findings of the trial court, supported by sufficient evidence, the City of San Diego was as to all of its property rights and powers placed within the same category as the other several cities of California which were founded upon the sites of the former pueblos thereof, and which by virtue of their said foundation became and have since remained the successors of those property rights and powers with relation thereto which were possessed by said pueblos.

(2) The appellants, however, undertake to argue that the trial court was in error in holding as a matter of law that the pueblo of San Diego, by virtue of its organization as such, became entitled, under the Spanish and Mexican laws, to any prior or preferential right to the waters of the San Diego River passing above and underground through the allotted leagues which were to constitute the area of the pueblo lands. In ***117** support of this argument counsel for said appellants would have us go back even prior to the Christian era and consider in our review the history of civilization in so far as the same relates to the slow, involved, and obscure development of the civil and religious institutions of ancient and medieval Spain. If for the first time in the history of our California jurisprudence such a review was being asked, or such an elaborate argument as these appellants now urge was being presented we might be disposed to consider as persuasively as we have now read interestingly the pages upon pages of Spanish history collated in that behalf. But the difficulty with the situation which appellants' diligent counsel now seek to have us reconsider is that the same question has already on several occasions, early and late, been presented to and passed upon by this court in decisions which are uniformly adverse to the appellants' present contention. While there were other and earlier cases in the courts of this state and even in the Supreme Court of the United States which touched upon the subject of the formation of pueblos under the laws, institutions and regulations of Spain applicable to the settlement and development of lands in what had become known as "New Spain and the Indies," the great leading case upon the subject applying these laws, institutions and regulations particularly to those pueblos which had come into existence in California under both the Spanish and Mexican dominion, is the case of *Hart v. Burnett,* 15 Cal. 530, to 624, wherein Mr. Justice Baldwin, Mr. Chief Justice Stephen J. Field concurring, discussed at great length and with much learning the nature and extent of the rights which inhered in such pueblos by virtue of their foundation in those lands which lay within their immediate vicinage and beyond this to the extent of the additional four leagues of surrounding lands allotted to such pueblos as a result of their formal establishment as civil governments or *quasi* municipalities. It is not necessary to further refer to this leading case in other terms than those in which it has been referred to and commented upon by later decisions of the courts of this state and of the United States. In the case of *Townsend v. Greeley,* 5 Wall. (U. S.) 326, 336 [18 L. Ed. 547, see, also, Rose's U. S. Notes], the effect of that earlier decision was briefly but clearly stated by Mr. Justice Field, who wrote the latter decision, ***118** and his language as used therein was quoted approvingly by this court in the case of *Hale v. Akers,* 69 Cal. 160, 166 [10 Pac. 385], which was presently to hand down its decision in the case of *Lux v. Haggin* in the following month of the same year and which is reported in 69 Cal. 255, 454 [4 Pac. 919, 10 Pac. 674, 715]. in this latter decision, which is the longest and most exhaustively treated cause in the history of California jurisprudence, Mr. Justice McKinstry, who wrote the opinion, went over the entire ground of the land and water rights of the owners of each in California whose title thereto looked for their derivation to the laws, institutions and regulations of Spain and Mexico. In the course of his most learned and comprehensive dissertation he referred approvingly to the decision in *Hart v. Burnett, supra,* as to the right and title which the pueblo had to land within its general limits. The court then proceeded to say: "By analogy and in conformity with the principles of that decision, we hold the pueblos had a species of property in the flowing waters within their limits, or 'a certain right or title' in their use, in trust to be distributed to the common lands, and to the lands originally set apart to the settlers, or subsequently granted by the municipal authorities. It may be conceded that such authorities were not authorized to make concessions to individuals of the perpetual and exclusive use of portions of the waters, without reference to the needs of the other inhabitants; or that such concessions would be an abuse of the trust. But they had a species of right or title in the waters and their use, subject to the public trust of continuously distributing the use in just proportion. … Each pueblo was *quasi* a public corporation. By the scheme of the Mexican law it was treated as an entity, or person, having a right as such, and by reason of its title to the four leagues of land, to the use of the waters of the river on which it was situated, while as a political body, it was vested with power, by ordinance, to provide for a distribution

of the waters to those for whose benefit the right and power were conferred." After quoting certain passages from Escriche, an eminent Spanish authority upon the subject, the court further proceeded to say: "From the foregoing it appears that the riparian proprietor could not appropriate water in such manner as should interfere with the common use or destiny which a ***119** pueblo on a stream should have given to the waters; and *semble* that the pueblos *had a preference or prior right to consume the waters even as against an upper riparian proprietor."* The court, however, suggested that it "is not necessary here to decide that the pueblos had the preference above suggested; nor is it necessary here to speak of the relative rights of two or more municipalities on the same stream." In the next and later case of *Vernon Irr. Co. v. Los Angeles,* 106 Cal. 237, 251 [39 Pac. 762], the question directly arose. In that case the Vernon Irrigation District, a corporation, owned a tract of land riparian to the upper reaches of the Los Angeles River, and commenced its action to enjoin the city of Los Angeles, which was and is the successor of the pueblo of Los Angeles, and certain other defendants, from so diverting the waters of the Los Angeles River as to interfere with the plaintiff's riparian right therein. The city of Los Angeles by its answer put forth the claim that by virtue of its succession to the rights of the pueblo of Los Angeles, founded in 1786, it possessed the prior and preferential right to take all of the waters of the Los Angeles River. The trial was prolonged and the findings of the trial court voluminous, in the course of which it was found and decreed that the city of Los Angeles, by virtue of its succession to rights of said pueblo, was the absolute owner of all of the water flowing in the Los Angeles River for the use of its inhabitants and for all other municipal purposes. From the judgment in its favor based upon this finding the plaintiff took an appeal and thus presented to this tribunal for determination the correctness of the aforesaid finding of the trial court. This court, Mr. Justice Temple writing the opinion, gave its most careful and exhaustive consideration to the determination of this question, in the course of which he quoted exhaustively from the Spanish and Mexican laws, approving the principles enunciated in the case of *Hart v. Burnett, supra,* and which were adopted by this court in *Lux v. Haggin, supra,* and quoted also with approval the language of the latter case above referred to and wherein it had been suggested, though not in that case found necessary to be decided, that the pueblos had a preferred right to the waters of rivers flowing through their lands, which could be asserted to the extent needed to supply the wants of their inhabitants. There ***120** were other questions presented in that case not necessary to be here considered, but it must be conceded that the question as to the prior and preferential right of a pueblo to the waters of a river passing through it to the extent above indicated was therein squarely presented and fully upheld by the terms and scope of that decision, and that the later formed municipality organized as the successor of the pueblo fully succeeded to these rights to which the pueblo had become entitled by virtue of its creation under the Spanish and Mexican laws. The next case wherein this question arose was that of *City of Los Angeles v. Pomeroy,* 124 Cal. 597, 650 [57 Pac. 585], which was an action in which the city of Los Angeles undertook to condemn certain lands lying in the San Fernando Valley along the Los Angeles River and to which stream said lands were riparian, for the purpose of utilizing the same in collecting and conserving the waters of said stream for delivery to the main supply pipe and distributing system of said city. The plaintiff based its claim of right to condemn the land in question for the utilization of its asserted right to the waters of said river, in part at least, upon the averments of its amended complaint to the effect that the city, as the successor of the pueblo, was the exclusive owner of all of the waters of said river for the purpose of supplying water for the irrigation of the irrigable lands embraced in the four square leagues of the pueblo, and for other municipal uses. These averments were traversed by the defendants. The cause was tried before a jury, to which the court gave the following instruction: "The city of Los Angeles is situated on the river below these lands, and is the owner of the right to take from the Los Angeles river all the water that is reasonably necessary to give an ample supply for the use of its inhabitants and for all municipal uses and purposes for which the city may require water. This right is measured by the necessity, and if the needs increase in the future the right *will expand to include all that the needs require. This right of the city is paramount and superior to the rights of the defendants in the waters of the river."* This court upon appeal, Mr. Chief Justice Beatty writing the opinion, fully sustained said instruction in so far as it correctly stated the paramount and superior rights of the city to whatever expanding uses of the waters of said river the ***121** pueblo by virtue of its formation possessed, and in so doing expressly approved in principle the case of *Vernon Irr. Co. v. Los Angeles, supra;* the court, however, held that the instruction was erroneous in according to the city of Los Angeles greater rights to the waters of said river than those which, as the successor

of the pueblo, it had received from it, the area of the modern city having expanded so as to embrace territory not within that of the pueblo lands. The next case in which the same question controversially arose was that of *City of Los Angeles v. Los Angeles Farming & Milling Co.,* 152 Cal. 645 [93 Pac. 869, 871, 1135], wherein the city of Los Angeles asserted its prior and paramount ownership of the use of the waters of the Los Angeles River from its source to the city and from the surface to bedrock in so far as it was necessary to supply water for the use of its inhabitants, by virtue of its successorship to the pueblo and against the asserted riparian rights of the defendant, based upon its ownership of riparian lands lying along said river some ten miles above said city. The trial court accorded the plaintiff such right and upon appeal this court, Mr. Justice McFarland writing the opinion, after stating that the only question in the case was as to whether "under the general law of the locality the old pueblo of Los Angeles and the respondent herein as its successor had and has as against appellant the prior and paramount ownership of the use of so much of the water of the Los Angeles river as is necessary for its inhabitants and for general municipal purposes," proceeded to state that "this question need not be discussed as an original one, for it has been answered in the affirmative by former decisions of this court." The cases which are above referred to are there reviewed at length and expressly approved, and after such review and approval it is said: "The foregoing decisions are determinative of the prior and paramount right of the pueblo and of plaintiff as its successor to the use of the water of the river necessary for its inhabitants and for ordinary municipal purposes. The question as to what extent the right goes, a question somewhat considered in the Pomeroy case—that is, for the use of the inhabitants of what territory and for what municipal purposes can the water be taken as against a riparian owner—does not arise and need not be considered in the case at bar." Neither, it may be said, does this latter question ***122** arise in the present case. The law and the attitude of this court toward the law upon this subject stood as above stated during the twenty years which preceded the presentation of the same question to this court in the case of *Cuyamaca Water Co. v. Superior Court, supra,* which was a prior proceeding in the instant case, and in which the issues primarily involved were those quoted from in that decision in the earlier stages of the present opinion.

(3) The appellants herein contended in the trial court and here contend that they were and are entitled to have reconsidered and relitigated the question as to whether or not a Spanish or Mexican pueblo organized in California under the laws, institutions and regulations of Spain or Mexico during their successive governments thereof, became possessed by virtue of such laws, institutions and regulations of a prior and paramount right to the use of the waters or rivers or streams passing through and over or under the surface of their allotted lands so far as may be or become necessary for the pueblo and its inhabitants, and as to whether or not a municipality organized under American rule as the successor of such pueblo succeeded to such pueblo rights. We are of the opinion that by virtue of the foregoing long line of cases, and particularly of the decision of this court in the case of the *City of Los Angeles v. Los Angeles Farming & Milling Co., supra,* wherein the cases preceding it were specifically reviewed and held to be determinative of this question, the subject is no longer an open one for further consideration and review before this court, and that by said decisions, so long and uniformly followed and adhered to, the proposition that the prior and paramount right of such pueblos and their successors to the use of the waters of such rivers and streams necessary for their inhabitants and for ordinary municipal purposes, has long since become a rule of property in this state, which at this late date in the history and development of those municipalities which became the successors of such pueblos we are not permitted, under the rule of *stare decisis,* to disturb.

(4) We are not unmindful of the contention elaborately presented and argued by counsel for appellants that the pueblo of San Diego, even if conceded to have been regularly established as such in the year 1834, never became entitled to any prior, preferential or other rights in or to ***123** the waters of the San Diego River for the reason that long prior to the alleged establishment of said pueblo the entire and exclusive right to the use and benefit of the waters of said river had been granted by the viceroy of Spain to the mission of San Diego. In support of this contention the appellants introduced in evidence before the trial court and have here presented for our inspection and interpretation a photostatic copy of such purported grant. It bears the date, according to the translation thereof with which we have been kindly furnished, of the 17th of December, 1773, and the signature, by secretary, of Bucarely, the then viceroy of the King of Spain over Mexico. It purports to approve the removal of the mission of San Diego from its former location near the presidio on the shore of the bay of San Diego to a new site

several miles up the arroyo, and in order to facilitate such removal and the development of the then small and in a sense still speculative and quite problematical success of the first mission established in Alta California, it proceeded to suggest the cultivation of its surrounding lands through the use of water from the stream, and for that purpose directs the "Reverend Fathers of the Mission to acquire and administer this concession and Royal grant (privilegio) to the waters of this arroyo referred to for the common benefit of all the nation, whether Gentile or converted, who dwell to-day or in the future in the province of the mission of San Diego de Acala. This concession and the fruits also shall be held (ser tener) as to these children and their children and successors forever." The document proceeds to state in immediate connection with the foregoing that "Although a Presidio is thus placed near to the entrance of this stream near to the Port of San Diego there can be no prejudice in this respect because there is always sufficient water for the service of the soldiers, and in the topography and report of Sr. Don Miguel Castro there is evident to the south of this place a worthy river and a torrent smaller in flow and some smaller arroyos from which to drain (disaguas) the Rancho del Rey where their cattle may wander under the vigilant eye of the herdsmen." We are loathe to believe that the viceroy of Mexico, framing this document in the then far-distant capital of New Spain ever intended by its terms to confer upon this primitive and as yet largely experimental mission settlement any ***124** such enlarged, prior, paramount or exclusive rights in and to the waters of the San Diego River as the appellants herein claim for it. Its language does not so import and it may be said to be doubtful, to say the least of it, whether even the viceroy of the kingdom of Spain in making such a concession would not have done violence to those laws, institutions and regulations of Spain which provided for the establishment of civil governments of the sort known as pueblos in new lands so as to take away from these the whole of those water rights in rivers traversing their allotment of land which would be essential to the cultivation of such lands when occupied by civil settlement.

(5) We learn from public history, of which we take judicial notice, that the civil settlement of Alta California was coequally contemplated by those who were officially in charge of the primary expedition which only four years before this purported grant had been put forth and provisioned for the discovery and occupancy of Alta California through the joint effort of Padre Junipero Serra and of Jose de Galvez, visitor-general of New Spain. In the broad and detailed plans and express decrees of the latter, precise provision was made for the foundation and development of presidios, pueblos and missions in the as yet unknown region, and these three forms of occupation were expected, as nearly as possible, to proceed simultaneously as a result of the joint military, civil and religious expedition then about to set forth. It may be fairly assumed that these joint settlements designed to be established simultaneously were also intended to function harmoniously and not to become involved in disputes over the respective jurisdiction and property rights of each. This will appear to be plain when the nature, functions and purposes of each of these foundations is considered both historically and in the light of the Spanish and Mexican laws and regulations relative to each. Presidios were purely military foundations to be occupied by soldiers, and to exist for the establishment of order and for the protection of the pueblo and mission foundations. The pueblos, on the other hand, were purely civil and political foundations, as the term itself implies, being equivalent to the English word "town" and signifying a civic body corporate and politic, and intended, through the cultivation of the lands with which under the ***125** Spanish and Mexican laws it was by virtue of its foundation to be invested, to furnish sustenance for its own inhabitants and for the presidios. Mission settlements, on the contrary, were purely ecclesiastical foundations, made or to be made, in Alta California by monks or padres of the Franciscan Order, and existing and being conducted by these for the sole purpose of bringing the blessings and fruits of Christian civilization to the Indian population of Alta California, theretofore in a state of barbarism. A mission foundation in its inception possessed and exercised none of the ordinary forms or properties of civil government, but was, and was for a time at least to be, purely paternal in character, with such material possessions as were required for the maintenance and exercise of its ecclesiastical development. The lands which were to be occupied by the missions were to be held in possession by the priests for the purpose of carrying forward the main object of the mission foundation, but these lands were to be possessed, occupied and cultivated only by permission and were to be and remain the property of the nation and to be subject at all times to grants under the laws of Spain and Mexico relating to colonization. So said the Supreme Court of the United States in the case of *United States v. Ritchie,* 17 How. (U. S.) 525, 540 [15 L. Ed. 236, see,

also, Rose's U. S. Notes]. It was thus upon this theory and assumption that the so-called secularization of the missions of Alta California by officials of the Mexican government, to which we shall presently refer, was ordered and carried forward to its disastrous conclusion. We are referred upon this subject, by counsel representing both sides of the instant controversy as an authority, to the very interesting pamphlet entitled "The Colonial History of San Francisco" and embracing the argument of John W. Dwinelle, Esq., in the case of the *City of San Francisco v. United States* in the District Court of the United States for the Northern District of California. We do not, however, in this case find it necessary to finally determine the scope and intent of Bucarely's concession to the mission of San Diego in respect to its new location. The reason we are not called upon to do so is that, according to the evidence educed herein, the mission of San Diego was in or about the year 1834 secularized by Governor Figueroa of Alta California and his official coadjutors, purporting ***126** or pretending to act in so doing under decrees of the Mexican government enacted in the preceding year. It is not necessary for us to herein determine whether or not the secularization of the mission San Diego, put into effective operation in that and the following year or two, was in all or in any of its aspects lawful. It is sufficient to note that by the consensus of both the civil and ecclesiastical historians of the time and event it was successful and that within a very few years at most the spoliation of the mission was so far completed that its productive activities had ceased, its Indians and its priesthood had departed, the former to relapse into their aboriginal condition, and the latter to seek and find other fields of labor. The mission life in fact was destroyed and the mission lands, which by virtue of their secularization were to become part of the public domain, were within a decade thereafter conveyed by private land grant executed by Governor Pico to one Santiago Arguello, whose grant of the same was subsequently confirmed by the board of commissioners for the settlement of private land claims created by the United States government in 1851, and a patent therefor issued to said grantee a few years later. It has not been seriously, as it could not be successfully, contended herein that any of the original rights of the mission or of its founders or their successors derived from Bucarely's concession either survived the secularization of the mission or passed to Arguello or his successors by virtue of his private land grant and the confirmation thereof by the government of the United States.

(6) It follows necessarily that upon the establishment of the pueblo of San Diego in the year 1834, as found by the trial court, it became invested with whatever land and water rights it was entitled to under the laws, institutions and regulations of Spain and Mexico, and that in the possession and continued exercise of those rights it was nowise impeded or impaired by the existence of any similar or even superior rights in the mission of San Diego which either had ceased or would presently cease to be. There is, therefore, no merit in the contention of the defendants herein that they or any of them by virtue of their occupancy of the former mission lands are to be held the successors of whatever rights the mission had, since the entire right ***127** and title of the present occupants of such lands relate as to their origin solely to the Arguello grant.

(7) As to the claim of title to the so-called mission lands, whether derived from the foundation of the mission itself and its occupancy of said lands, or from the Bucarely concession, it is clear that such rights, if any existed, either prior or subsequent to the secularization of the mission, ceased to exist for the additional reason that such claim was never presented to the board of land commissioners as required by the act of Congress of March 3, 1851 (9 Stat. 631), and therefore lapsed and ceased to exist, under the authority of *Hihn v. Santa Cruz,* 170 Cal. 436, 444 [150 Pac. 62], and *Botiller v. Dominguez,* 130 U. S. 238 [32 L. Ed. 926, 9 Sup. Ct. Rep. 535, see, also, Rose's U. S. Notes].

(8) As to the Arguello grant, which was, as we have seen, confirmed, it stood upon no other footing as to the rights in the lands and water within its area than that of the several thousand other private land grants in California and having been made subsequent to the establishment of the pueblo of San Diego and to its right and title to the lands and waters embraced within its allotted area, and which were also confirmed, was necessarily subject thereto, and hence in no way available in aid of the contention of the appellants and interveners herein.

We have thus, we think, disposed of every vital question presented by the defendants as appellants affecting that portion of the judgment of the trial court as to which the plaintiff herein is the respondent, and it only remains for us to consider and dispose of those portions of said judgment as to which all of the parties herein have presented their separate appeals. In that portion of the findings of the trial court which are quoted in the earlier

passages of this opinion it will be seen that the prior and preferential rights of the City of San Diego as the successor of the pueblo were made subject to certain exceptions to be in said findings subsequently set forth. In these, its later findings, the trial court deals with those special defenses of said defendants and also of said interveners wherein it is pleaded and sought to be proven that whatever prior or preferential rights in and to the waters of the San Diego River the City of San Diego had or acquired by virtue of its succession to the ***128** pueblo of San Diego it has subsequently and either wholly or partly lost by prescription or by laches or has become estopped to assert as against these defendants and interveners through certain alleged affirmative action on the part of itself or its authorized officials.

On the threshold of the discussion as to the nature of these several defenses and, if available at all to the defendants, the extent to which they or any of them should be given application to the instant case, it will be well to recur to the statement made by this court upon the former hearing in *Cuyamaca Water Co. v. Superior Court,* 193 Cal. 584, 588 [33 A. L. R. 1316, 226 Pac. 604], and which is quoted in the early pages of the present opinion, and from which it will appear that the plaintiff herein is not seeking by this action to have it determined that it is entitled to any particular quantity of water, based upon its prior or present use of the waters of the San Diego River, to the extent of its asserted prior and paramount rights therein. The plaintiff in its pleadings asserts no such use of said waters in the past by either its predecessor, the pueblo, or itself, further than such use thereof under such claim of right as was from time to time necessary for the needs of the pueblo and its successor the city. On the other hand, the defendants and interveners herein have both by their pleadings, their proofs and their argument, asserted and shown that neither the pueblo nor the City of San Diego ever did, prior to the institution of the present action, make actual use of any considerable amount of the waters of the San Diego River for any public or municipal or other purpose whatever, and that during the entire history of both pueblo and city the larger part of the waters of the San Diego River, except for the uses thereof undertaken by the defendants and interveners herein, would have flowed through and past said plaintiff and gone unused to the sea. In the findings of the trial court no finding is made and no estimate given as to the quantity of the waters of said river which the plaintiff or its predecessor had made use of, or could have made use of to the full extent necessary for the needs of the city or its inhabitants from time to time in the course of the development and growth of the pueblo and the city's civic life, nor is there to be found in the findings of the court or in the evidence in the case anything tending to establish ***129** that whatever actual uses or diversions of the waters of said river the defendants and interveners herein, or any of them, are shown to have made, ever resulted in a diminution in any appreciable degree of the amount of flow of the waters of said river which the plaintiff herein or its inhabitants were from time to time putting to actual use under or in pursuance of the exercise of the city's aforesaid prior and preferential right to the waters of said river. On the contrary, the undisputed evidence in this case discloses the following facts with relation to the uses heretofore made of the waters of the San Diego River by the respective parties hereto: The maximum amount of water which the City of San Diego has annually required in order to fully supply its public needs and the needs of its inhabitants between the year 1890 and the year 1921 is disclosed by an exhibit (No. 22) introduced by the defendants herein showing the total amount of water delivered to the City of San Diego from all sources during the aforesaid series of years, from which it appears that during the year 1918 there was so delivered to said city a total of 3,634,205,289 gallons of water. This amount appears to denote the peak of the city's requirement for all of its aforesaid needs during the years immediately preceding the institution of the present action, and it may fairly be taken, therefore, to exemplify the full amount which the City of San Diego would have required to fully satisfy its prior and preferential right to the waters of the San Diego River to annually supply its aforesaid needs and uses, and hence the full amount of the waters of the San Diego River to which under its prior and preferential right it would have been entitled at and during the several years prior to the institution of this action. The evidence herein further discloses, according to a report which the Cuyamaca Water Company made and filed with the Railroad Commission, purporting to show the amount of water which it had sold and delivered to its consumers between the years 1913 and 1921 that the total amount of the waters of the San Diego River extracted therefrom and actually applied by it to such uses amounted during the year 1921 to 1,762,435,542 gallons. There is not to be found in the record herein any definite statement or evidence showing, with any degree of accuracy, the total annual outflow of water from the San Diego River; but that it is from ***130** year to year far in excess of the amount which would be represented in the aggregate of

the foregoing figures would seem to have been made sufficiently plain during the long controversy between the parties hereto over the use of said waters. Counsel for the defendants and appellants herein have presented to this court, in support of their plea of estoppel, an interesting document in the form of a resolution adopted by the common council of the City of San Diego on August 30, 1918, in response to an anxious inquiry from the city of La Mesa, and which will be more particularly adverted to hereafter, and from which resolution it is made to appear that "during the past twenty years eighty-four per cent of the water of said San Diego river has gone to waste in the Pacific ocean," and, further, "that the undeveloped waters of the San Diego river would, if impounded, prove entirely adequate to meet all present and reasonably probable future demands of the City of San Diego and of the neighboring communities adjacent to the San Diego river watershed." It is important that the foregoing facts relative to the volume and use of the waters of the San Diego River should be borne in mind dealing with the questions which we are about to consider touching the respective rights of the parties hereto to the waters of said river as affected by the defenses of prescription, laches and estoppel urged by the defendants and appellants herein. In dealing with these defenses it is also important to bear in mind the nature of each and the differences, if any, between them.

(9) It should at the outset be understood and stated that the pueblo rights, and hence the rights of its successor, the City of San Diego, to whatever of the waters of the San Diego River were from time to time required for the needs of the pueblo and of the city and of the inhabitants of each, were rights which were essentially "governmental" in character, as much so in fact as were the rights of the ancient pueblo and modern city to the public squares or streets, and that the term "proprietary," as employed with reference to certain commercialized uses made by municipalities and other public bodies, of water, light and power, for example, has no application to the fundamental rights of the plaintiff herein to its ownership of its foregoing classes of property dedicated and devoted to public uses. (***131** *Ames v. City of San Diego,* 101 Cal. 390, 394 [35 Pac. 1005].) It should also be noted upon the threshold of the impending discussion that the questions which might arise upon any attempted use of the waters of the San Diego River by the plaintiff herein for the supply thereof to the inhabitants of areas outside of the corporate limits of the original pueblo, whether such areas were or were not within the four league square allotment of lands to said pueblo, are not presented or presentable in the instant case, and hence that whatever authorities may have been cited bearing upon such questions are inapplicable, since, as was aptly stated in our earlier decision (193 Cal. 584 [33 A. L. R. 1316, 226 Pac. 604, 605]) "the subject matter of the action is the establishment of the priority of right and not the quantity of water to be taken."

(10) It should also be noted at this stage of the discussion that whatever rights the original defendants herein are entitled to claim and assert in the waters of the San Diego River, or any portion thereof, are rights and claims which rest for their support upon the several appropriations made of such waters by the Cuyamaca Water Company, a copartnership, or by the members thereof, and by the San Diego Flume Company, their predecessor and original appropriator of such waters, to the extent of the use thereof. We hold to be without merit the contention of these defendants that they derive their rights to such waters from a higher source, viz.: from certain rights acquired by them, or certain of them, under the congressional act of July 26, 1866 (14 Stat. 253, chap. 263, sec. 9), and the supplementary act of January 12, 1891 (26 Stat. 714, chap. 65, sec. 8), and that such rights derived from such source are superior to any right whatever in the waters of said river held by the City of San Diego, as the successor of such pueblo. We find from an examination of these congressional acts, without going into further detail, that they consisted in certain action taken by the United States government at a time subsequent to the vesting in the City of San Diego of whatever rights it possessed and still possesses in the waters of San Diego River by virtue of its successorship to the rights and interests of such pueblo and which were confirmed by the action of the aforesaid commission, and that whatever permissive grants of rights of way to private persons over public lands lying along the upper reaches of the San Diego ***132** River were made were subordinate and not superior to the already vested rights of the plaintiff herein, derived from its succession to the pueblo. (*Los Angeles Farming & Milling Co. v. City of Los Angeles,* 217 U. S. 217 [54 L. Ed. 736, 30 Sup. Ct. Rep. 452, see, also, Rose's U. S. Notes, and cases cited.) With these preliminary observations we pass to a discussion of the remaining questions presented for our determination by the original defendants and by their successors in interest, the interveners herein.

The first of these questions relates to the defense of prescription.

(11) The nature of the right claimed to have been acquired in the waters of a flowing stream by prescription rests as a prime essential upon an adverse use thereof by the claimant under a claim of right which has, to the extent thereof and for the required term of years, been acquiesced in by the person or persons otherwise entitled to the ownership and enjoyment of the waters thus adversely abstracted from said stream and to enforce those rights by appropriate action. It is needless to cite authorities to a proposition thus deeply grounded in the law of waters; but there are certain instructive cases which bear directly upon the situation of the parties to this action as disclosed by the record herein. The first of these is that of *Anaheim Water Co. et al. v. Semi-Tropic Water Co.,* 64 Cal. 185 [30 Pac. 623]. This was a case which involved certain alleged conflicting riparian rights to the diversion of the waters of the Santa Ana River, which formed the dividing line between two ranchos, from the owners of one of which the plaintiffs had derived by grant the right to use a certain definite amount of the waters of said river, to which the lands of the grantors were riparian, and of the other of which the defendant was the owner and was entitled to all of the riparian rights incident to such owner, unless the same or some portion thereof had been lost by prescription. The trial court found that the plaintiffs for many years had openly, notoriously and continuously appropriated and used the waters of said river to the full capacity of their ditch, claiming the right so to do adversely to all the world; but the court also found that prior to a year or so before the commencement of the action such diversion and use on the part of the plaintiffs, even though thus claimed to have ***133** been done adversely, had never interfered with the use which defendant during the same time was making of said waters, and that with the exception of the aforesaid brief time before the commencement of the action there had at all other times been sufficient water flowing in the river to supply the wants and demands of all of the parties to the action. In dealing with that situation this court (p. 192 of 64 Cal. *supra*) said: In the face of such facts as these, how can we be expected to hold that as against the owners of the Santiago Rancho the plaintiffs have established any prescriptive right?

(12) In order to establish a right by prescription, the acts by which it is sought to establish it must operate as an invasion of the right of the party against whom it is set up. The enjoyment relied upon must be of such a character as to afford ground for an action by the other party. This is thoroughly settled. Now it is very clear that while there was sufficient water flowing in the river to supply the wants and demands of all the parties, its use by one could not be an invasion of any right of any other; and as the court below found, as a fact, that until within a year or two prior to the commencement of the action, there was sufficient water flowing in the river to supply the wants and demands of all the parties, it is plain that the plaintiffs as against the owners of the Santiago Rancho have acquired no right by prescription. The next case to which we would refer is that of *Faulkner v. Rondoni,* 104 Cal. 147 [37 Pac. 883], wherein (without stating the facts of the case) we find that the doctrine above announced was expressly approved, the trial court having found that during the period claimed to have given rise to the prescription there had been sufficient water in the stream for the uses of all of the parties to the action and that, therefore, there had been no such invasion of the rights of one which could form the basis of a prescriptive right in the other. In the quite recent case of *Pabst v. Finmand,* 190 Cal. 128 [211 Pac. 11, 13], the doctrine above quoted from *Anaheim Water Co. et al. v. Semi-Tropic Water Co., supra,* was again approved, the court saying that the use by the adverse claimant "was not hostile unless there was an actual clash between the rights of the respective owners. While there was sufficient water flowing down the stream to supply the wants of all parties, its use by one was not an invasion of the rights of the ***134** other." It is also true, as stated in the concluding paragraph of *Pabst v. Finmand, supra,* that "the exercise of a mere riparian right can never be hostile to the land below. Where, however, the use is under such circumstances as to be adverse and under a claim of right asserted against lower riparian owners it may ripen into prescriptive title." For the most recent statement of this principle see *Scott v. Fruit Growers' Supply Co.,* 202 Cal. 47 [258 Pac. 1095], where the same principle is enunciated. It is contended by the appellants and interveners herein, however, that the foregoing several cases and the principles decided therein have no application to the contentions of the respective parties in the instant case, for the reason that each and all of these cases relate to the respective rights of riparian owners in the several streams to which they refer, and that said rights differ essentially from those which are asserted by the respective parties in the instant case. It is true that as between contesting riparian owners, and even

as between riparian owners and upper appropriators, the rights of each to the proportion to which each is entitled in the waters of the particular stream differ materially from the rights which the parties to this action assert or deny. But conceding this to be true, the misconception of the appellants herein consists in emphasizing these differences and in losing sight of the uniformity of application of the principles upon which prescription rests and which, as we have seen, require, both in the cases cited and in the case at bar, the presence of an adverse use as the essential basis of its assertion. It is for this reason that the principle enunciated in the foregoing cases has direct application to the situation presented in the case at bar. The City of San Diego by virtue of that prior and preferential right which it derived from the pueblo "to the use of all of the waters of the San Diego river necessary to supply the domestic wants of the inhabitants of said pueblo, to irrigate the lands thereof and for other municipal purposes within the general limits of said pueblo," has never thus far in its history possessed and is not now asserting any right of action to prevent the actual diversion of any quantity of the waters along the upper reaches of the San Diego River or its tributaries, whether undertaken by the defendants and interveners herein or their predecessors, or any other persons whatever, which has not at any ***135** particular time interfered with such exercise of its aforesaid rights in the waters of said river as from time to time in the course of its growth and history as a municipality it became possessed of. The right of said city was thus always "uncertain and conjectural," depending upon the particular needs of the city or its inhabitants at each particular stage in its development as a municipality, and it would be the height of unreason to hold that the pueblo in its primitive beginnings and the city in the infancy of its corporate life should have been bound to be continually taking arms against users of the upper waters of the stream to an extent which constituted no interference with its present use or right to use such waters at the time of such diversion. It follows that for this reason, also, no right by prescription exists or has ever existed in favor of these defendants and interveners, or either or any of them, arising out of their asserted adverse use of the waters of the San Diego River. The city is not in this action asserting a present right to any such remedy, but, on the contrary, and in the language of our earlier opinion, "the subject of the action is the establishment of the priority of right and not the quantity of water to be taken." It thus appears that the present action is not in any sense remedial but is purely declaratory in its nature and in the relief which, in so far as the plaintiff is concerned, is sought thereby.

(13) Finally, and with direct reference to the defense of prescription, it may be stated as a general rule that no invasion of the rights of property which are held by a public or municipal corporation in perpetual trust for public uses can be held sufficient to furnish the basis of a defense based solely upon prescription. The cases fully supporting this general principle have already been cited, but will be further referred to in considering the subjects of laches and estoppel, to which we shall now address ourselves.

With respect to the defense of laches which the defendants and interveners present and urge, little need be said, since what has immediately heretofore been stated fully applies to such defense. The City of San Diego and its officials could not in reason be charged with laches in the assertion of something with respect to which no right of assertion existed and with respect to which no adverse invasion has thus far occurred. There would seem to be another ***136** and all sufficient reason why the defense of prescription and of laches ought not to be available to the defendants as against the plaintiff in the present action. The right which the Pueblo of San Diego and the plaintiff herein, as its successor, acquired in the waters of San Diego River by virtue of the pueblo foundation was essentially a public right and, to employ the language of the findings of the trial court, "was a right and the distribution of such waters by the pueblo authorities was a trust created, imposed and recognized by the laws, orders and decrees of the Kingdom of Spain and the Republic of Mexico." In the case of *Cuyamaca Water Co. v. Superior Court, supra*, this court adopted the language upon this subject in *Lux v. Haggin, supra,* wherein it was stated that "the occupants of lands within the city, the pueblo's successor, are beneficiaries only to the extent that they are entitled to the use of such water and at such times as accords with the laws regulating the public and municipal trust." In the case of *Vernon Irr. Co. v. Los Angeles,* 106 Cal. 237 [39 Pac. 762, 765], it was stated with special reference to the rights to the waters of the Los Angeles River which the city had derived from the pueblo of Los Angeles that "the waters of all rivers were, under the Spanish and Mexican rule, public property for the use of the inhabitants." If this be true, it follows necessarily that the public right and public trust which the pueblo and its successor, the City of San Diego, had in these waters in no respect differed

from those other public rights and properties which the state and its various subdivisions and agencies possess and administer; and it has been uniformly held that such public rights cannot be lost nor the public trust as to their administration and exercise be destroyed either by adverse possession or by laches or other negligence on the part of the agents of the state or municipality who may from time to time be invested with the duty of their protection and administration. (*People v. Kerber*, 152 Cal. 731-733 [125 Am. St. Rep. 93, 93 Pac. 878], and cases cited.) The case of *Ames v. City of San Diego,* 101 Cal. 390-392 [35 Pac. 1005], will, when carefully examined, be found to fully uphold this view. We are, therefore, of the opinion that for the above additional reason the defense of prescription and laches urged by the defendants and interveners herein cannot be upheld.

***137** (14) The defense of estoppel, however, rests upon an entirely different foundation in both law and fact from that underlying the foregoing two defenses. The defense of estoppel rests upon the doctrine that a right conceded for the purpose of such defense to exist in a party, he shall not be permitted to assert against another to the latter's injury because of the existence and proof of certain facts and conditions which would render its assertion inequitable. The question as to the application of this well-defined legal proposition as between the parties to an action in the nature of things depends upon the facts of each particular case. Whether the facts of this particular case are such as to permit the application of this doctrine to the plaintiff in its capacity as a municipal corporation and with respect to the latter's "prior and preferential right to the waters of the San Diego river" as above defined, is the problem to which we must finally devote our attention. The essential facts as developed in the evidence educed herein, bearing upon this problem, are not, with certain exceptions to be noted, the subject of material dispute. The original defendants in this action were Cuyamaca Water Company, a copartnership, and certain parties alleged to be surviving members of the legal representatives of certain deceased members thereof; also, Cuyamaca Water Company, a corporation, which does not seem to have much to do with the case. The evidence in the case, stated as concisely as possible, discloses that in the year 1885 the San Diego Flume Company was organized for the purpose of developing the water supply along the upper reaches of the San Diego River and its tributaries which had theretofore been undeveloped and largely unused, with a view to conserving and utilizing the same upon the region lying between the City of San Diego and the mountains, wherein that stream and its tributaries had their source, and the lands of which region prior to said time, being semi-arid, had been but thinly populated and little used. In the course of this development and during the next few years the San Diego Flume Company expended large sums of money, estimated by the trial court to have been in excess of one million dollars, in the creation of dams, diversion works, pumping plants, ditches and flumes for the diversion and distribution of said waters to an extent hereinafter to be stated. The Cuyamaca Water Company, ***138** a copartnership, ere long succeeded to the rights and property of the San Diego Flume Company and during the intervening years between 1889 and the date of the institution of this action has augmented the expenditures, continued and extended the activities and administered the resources thus derived from its predecessor, with the resultant effect that within the wide region reached and benefited by the aforesaid development and distribution of the waters of said river, to the extent hereafter to be noted, an extensive productivity has been attained; orchards, vineyards, farms and homes have been created, and cities and towns have been established, such as the city of La Mesa, the city of Lemon Grove, the city of El Cajon and other growing communities containing as a whole several thousand inhabitants and constituting prosperous centers of civic and community life, and all of which have, during all the years of their creation and growth, received their water supply from the waters of said river as thus developed and distributed by or through the Cuyamaca Water Company. Of recent years certain irrigation districts have been formed and are being operated within said region and one of these, to wit, the La Mesa, Lemon Grove and Spring Valley Irrigation District, has recently secured an option upon, if not actually acquired, all of the rights and properties of the Cuyamaca Water Company, and has thus become the principal party in interest in the eventuality of the present action, in so far as the defendants and interveners are concerned. The legal foundation of the San Diego Flume Company and also of its successor, the Cuyamaca Water Company, rested originally in certain formal appropriations located in due course of the laws permitting the same along the course of said river and its tributaries, and to an amount in the volume of water claimed to be as hereinafter stated. In pursuance of these appropriations certain quantities of said waters have been diverted and distributed, to an extent also hereinafter to be designated. It would seem, also, that certain of the defendants put forth certain claims

of right herein, depending upon their alleged ownership of certain lands riparian to said stream. During all of the earlier years of the activities of the San Diego Flume Company and of the Cuyamaca Water Company in the appropriation to the extent thereof of the waters of said river and also ***139** of the diversion and distribution thereof to the volume and extent thereof; and during all of the earlier years of the settlement, development and growth of the region and of the several corporate communities therein as a direct result of the application of said waters to said otherwise semi-arid region, the City of San Diego regarded quiescently, and in fact it may be said approvingly, the foregoing development of its "back country" through the aforesaid appropriation, diversion and use of the waters of the San Diego River. It had every reason so to do and it had no reason to do otherwise, since its own advancement, progress and prosperity in both business and population were being greatly enhanced thereby, and since, also, its own actual uses of the waters of said river were being in nowise diminished or impaired. It is true, as averred by the defendants and interveners herein and as found by the trial court, that the City of San Diego on various occasions in its municipal history and through its successive legislative bodies has granted certain rights and privileges to private persons and corporations to develop water by wells and works of various kinds within the limits of the former pueblo lands, and has even contracted to purchase such works when constructed and such water when developed for the use and benefit of the inhabitants of said city; but it is also true, as found by the trial court, that none of these arrangements was made with any predecessor of the defendants or interveners herein so as to entitle the latter to claim that acts and efforts on the part of the city to have developed its own water supply within its limits and for the use of its inhabitants amounted to such an admission of the validity of the appropriation and uses which the defendants and interveners were undertaking upon the upper reaches of the San Diego River as would operate to constitute an estoppel. The essential elements of an estoppel, even as between private persons, were thus far, and up to at least the year 1914, entirely lacking. The defendants and their predecessors, the San Diego Flume Company, in entering upon and prosecuting their plans for the appropriation and diversion of the waters along the upper reaches of the San Diego River and its tributaries cannot lay claim to having been misled as to their rights as a matter of law to thus appropriate and use the waters of said river, since they must be held to have known, both as ***140** a matter of fact and as a matter of law, of the existence in the City of San Diego of the aforesaid prior and preferential right of the city to such waters and to the assertion thereof whenever the expanding needs of the city or its inhabitants required such assertion. With respect to the knowledge which the predecessor of the defendants and appellants herein—and by which knowledge they are bound— had upon this subject as a matter of fact, the evidence in this case sufficiently shows that the San Diego Flume Company, from the date of its organization and first appropriation of the waters of the San Diego River, was fully informed as to the prior and paramount right of the City of San Diego to the use of the waters of the San Diego River, and that upon the advice of its attorney it caused to be inserted in its contracts with the consumers express provisions protecting it, as to its said consumers, against the assertion of such right by said city; and at as early a date as the year 1900, when certain litigation was instituted against the San Diego Flume Company by or on behalf of its consumers to enjoin said company from preferring the City of San Diego pursuant to its said rights in the matter of the water supply from said river then being furnished to said city, the San Diego Flume Company expressly pleaded in its answer the existence of the paramount right of said city and the terms of its said consumers' contracts inserted in recognition thereof. The evidence further discloses that at various times during the decade or more of controversy preceding the institution of the present action the Cuyamaca Water Company, a copartnership, through its most active and aggressive member, Mr. Fletcher, was fully advised from time to time as to the existence of the aforesaid prior and paramount claim of right on the part of said city. The findings of the trial court based upon the foregoing state of the record herein are full and ample and are as follows:

"It is not true that the plaintiff has been guilty of any carelessness or any culpable negligence resulting in the defendants, or any of them, being misled as to the state of the plaintiff's title as set forth in its amended complaint. Neither is it true that the defendants were at all times ignorant, or were at any time ignorant of the claim of the plaintiff to the prior and paramount right to the use of the water ***141** of the San Diego river. Neither is it true that the defendants had no convenient or ready means of acquiring knowledge respecting the prior and paramount right of the plaintiff in and to the waters of the San Diego river, but, on the contrary, it is true that the defendants and their predecessors in interest at all times

had convenient and ready means of acquiring knowledge respecting such right, and at all times knew of plaintiff's claim to such right. It is not true that such acts, omissions and declarations of the plaintiff as are herein found to have been performed, were said or done through fraud, and it is not true that any act or omission or declaration of the plaintiff constituted a fraud upon the defendants or any of them, and it is not true that any act or omission or declaration herein found to have been done or declared by the plaintiff has injured the defendants or any of them, or justified the defendants or any of them in believing that the plaintiff did not own or claim to own an estate in the waters of the San Diego river as alleged in said amended complaint; neither is it true that the defendants nor any of them relying or acting upon any belief fraudulently induced by the plaintiff have expended any money in the development of the waters of the San Diego river. Neither is it true that the defendants nor any of them, or their predecessors in interest, relying or acting upon the belief that the City of San Diego did not own the prior and paramount right to the use of the waters of the San Diego river, expended large or any sums of money in developing said waters and acquiring an estate therein."

(15) That said defendants and appellants, as a matter of law, must be held to have had knowledge of the existence in the City of San Diego of its prior and preferential rights in and to varying amounts of water of the San Diego River, according to its expanding needs, may be said to rest not only upon the general proposition that all persons are held to a knowledge of the law, but may be said to also rest upon the fact that this court from a date as early as the decision of the case of *Hart v. Burnett, supra,* and at intervals during the intervening years between that early time and the institution of the present action was engaged in uniformly upholding the prior and preferential right of cities founded upon a previous pueblo existence to the waters of ***142** such streams as flowed through them. The record herein discloses that the San Diego Flume Company was fully advised by astute and able counsel of the existence of such prior rights in the City of San Diego as a matter of law. In the light of the foregoing findings of the trial court with respect to the knowledge of the aforesaid rights of the City of San Diego, which these appellants are held to have possessed as a matter of fact, and by which knowledge they must also be held to be bound as a matter of law, and in the light of the further fact of the total absence from this record of any showing on their part that whatever acts of diversion and use of the waters of the San Diego River they or their predecessors therein have thus far engaged in have in any degree constituted an invasion of the vested rights of said city in and to the waters of said river, the following cases are instructive. The first of these is the case of *Anaheim Water Co. v. Semi-Tropic Water Co., supra,* to which reference has been made with relation to rights to be gained by prescription, and wherein also the subject of estoppel is considered, the court saying: "With respect to the estoppel, relied on by the plaintiffs, it is sufficient to say that, as the findings of the court below show that there was sufficient water flowing in the river in 1857 and for nearly twenty years thereafter to supply the wants and demands of the owners of each of the ranchos bordering on the stream, the owners of the Santiago Rancho were neither called upon to object to the diversion and appropriation by the predecessors of the plaintiffs, nor had they any right to object thereto. No right of theirs was interfered with; nor does it appear that there was any fraud, misrepresentation or concealment of any kind practiced upon the predecessors of the plaintiffs by the owners of the Rancho Santiago." In certain cases, hereinafter to be noted, and also in the case just cited, we have had occasion to quote with approval what was held in the case of *Biddle Boggs v. Merced Min. Co.,* 14 Cal. 368: "There must be some degree of turpitude in the conduct of a party before a court of equity will estop him from the assertion of his title—the effect of the estoppel being to forfeit his property and transfer its enjoyment to another." It is to be noted in this immediate connection that the claim of estoppel which the upper appropriator of the waters of a stream undertakes ***143** to assert against a lower claimant thereto, based upon the latter's acquiescence, must be founded not upon the amplitude of the former's claim as set forth in his recorded appropriation of such waters, nor by the carrying capacity of his ditches or flumes, but upon the actual diversion and use of said waters and only to the extent thereof. (*Pabst v. Finmand*, 190 Cal. 124, 133 [211 Pac. 11]; *Haight v. Constanich,* 184 Cal. 426 [194 Pac. 26]; *Northern California P. Co. v. Flood,* 186 Cal. 301 [199 Pac. 315].) We understand the foregoing authorities to state the settled law as declared in this state touching this subject, notwithstanding the array of authorities presented by the appellants and interveners herein from other jurisdictions apparently laying down a different rule.

(16) Even, however, if it were to be conceded that a right based upon estoppel could arise by virtue of mere

acquiescence in its assertion as between private persons, we are satisfied that no such claim of right could come into being as against a municipal corporation, founded upon its mere acquiescence or that of its officials in the diversion by any number of upper appropriators, or even of upper riparian owners of the waters of a stream, to the use of the waters of which such public or municipal corporation was entitled as a portion of its public rights and properties held in perpetual trust for public use. The general rule upon this subject is stated in volume 10, California Jurisprudence, page 650, and cases cited, as well as certain limited exceptions to the rule. The defendants and interveners, appellants herein, have referred us to no case wherein the mere passive acquiescence of a public corporation or its officials in the invasion of its rights of property, however long continued, has been held to operate as an estoppel against its assertion of those rights. They have, however, called our attention to certain cases which are claimed to constitute exceptions to the operation of the general rule, and to which we shall presently refer. It is sufficient at this point in the discussion to state that in so far as, prior to the year 1914, the plaintiff herein may have passively acquiesced in the acts of the defendants and interveners in the diversion and use of the upper waters of the San Diego River no estoppel *in pais* can be predicated thereon to any extent whatever in favor of the defendants and interveners herein for the ***144** several reasons above set forth. Among the cases above referred to are *City of Los Angeles v. Cohn*, 101 Cal. 373 [35 Pac. 1002], wherein the principle of estoppel in pais was given application to an action brought by the city of Los Angeles to recover possession of a small tract of land lying at the intersection of Spring and Main Streets in said city, and which was claimed by it to be a part of a public street. That, however, as the court stated in its decision, was an exceptional case from the fact not only that the defendants had been in possession of the property in question adversely and exclusively for almost forty years, during which time they had erected substantial buildings thereon, but that the city, through its officers, had affirmatively and at the time of the erection of such buildings misled the defendants into the belief that the city laid no claim to the premises in question, and that acting upon such belief and assurance the defendants had erected their structures upon the property and occupied the same undisturbed for many years. This case bears no similitude to the case at bar. Counsel also direct our attention to the case of *Ames v. City of San Diego,* 101 Cal. 390 [35 Pac. 1005]; but a reading of that case discloses that a clear distinction was drawn therein between the two classes of pueblo lands which the City of San Diego holds in succession from the former pueblo, namely, those held in trust for a specific public use, such as a park, which cannot be alienated and the title to which cannot be lost by adverse possession; and those lands, such as house lots, which the city, as successor to the pueblo, held, and which might be alienated by it, and which it was held, for that reason, might be lost by adverse possession. There is no comfort for the defendants herein in the decision of this court in that case.

(17) Counsel for the defendants and interveners further insist that under the Spanish and Mexican laws pueblo lands might be lost by prescription. It is needless to follow this argument or the authorities cited therein further than to state that the United States in taking over the territory known as Alta California under the treaty of Guadalupe-Hidalgo, ageeing therein to recognize the existence and protect the ownership of certain land titles within said territory, did not also take over and agree to adopt the statutes of limitation of either Spain or Mexico as applicable to lands or waters devoted to a public use.

***145** It may be well, in addition to what has been heretofore stated, to deal, with somewhat more of particularity, with the events transpiring between the years 1914 and the date of the institution of the present action inclusive, in so far as these affected the relations and respective rights and claims of the original parties to this action and to the use of the waters of San Diego River. The record herein discloses that in the early part of the year 1914 the city attorney of the City of San Diego, acting in obedience to a resolution theretofore adopted by the common council thereof, requesting him to make an investigation of the rights of the city in and to the waters of the San Diego River and submit an opinion thereon, presented to that body a formal report upon that subject, going with much of detail into the history of the pueblo foundation, and citing and quoting at length from the decisions of the state and federal courts touching the nature and extent of the water rights of pueblos in and to the waters of streams passing through them, and making particular application of these decisions to the nature and extent of the water rights of the pueblo and City of San Diego in and to the waters of the San Diego River. This opinion was published in pamphlet form at or shortly after the date of its presentation, and was admittedly brought to the attention of both the defendants and the interveners herein about that time. It would seem

to follow of necessity that if the asserted rights of the defendants and interveners, to whatever extent, if any, we may find them to have been assertable, had not up to that time ripened into rights resting in the doctrine of estoppel, no later assertion of these rights and no later acts in the way of a further appropriation or diversion of said waters could be made the basis for a claim of right which did not then exist, unless these could be held to find their support in some very definite withdrawal of the claim of the city to that prior and preferential right to the use of such waters which was thus definitely set forth by the foregoing report the city attorney made in the month of January, 1914, and then or shortly thereafter brought to the notice and knowledge of the defendants and interveners herein. In the year 1917, however, the City of San Diego took a very definite step in the direction of making available to itself certain of the ***146** waters of the San Diego River not as yet conserved or appropriated to any beneficial use. In that year a bill was introduced in the United States Congress, at the instance of the City of San Diego, purporting by its title "to grant rights-of-way over government lands for reservoir purposes for the conservation and storage of water to be used by the City of San Diego, California, and adjacent communities." The text of the measure thus presented in Congress had reference to a proposed reservoir to be constructed along the upper reaches of the San Diego River and upon lands which formed a portion of an Indian reservation, the title to which was in the United States. While this measure was pending before certain committees of Congress during that and the following year the passage thereof was strenuously opposed by certain representatives of the defendants and interveners herein, their contention being that the grant of such reservoir rights, with the resultant construction of the proposed reservoir, would constitute a serious interference with the already vested rights of the defendants and interveners to the beneficial use of the waters of the San Diego River. In furtherance of the urge of these opponents and in an effort to so far limit the scope and purpose of said grant and the exercise of whatever reservoir rights and uses were to be asserted thereunder, it was sought to have the City of San Diego, through its officials then in charge of its municipal affairs, adopt certain resolutions disclaiming any intent on the part of said city to interfere with the uses then being made of the waters of the San Diego River by the defendants and interveners herein, and in pursuance thereof certain resolutions were adopted by the then governing body of said city touching this subject. A considerable portion of the record consists of details of this proceeding in Congress, and there is considerable discussion in the brief of counsel with respect to the attitude thus taken by the City of San Diego with relation thereto. It would seem, however, that the trial court fully set forth and adequately and correctly considered and treated this entire episode in its findings of fact herein, and that with particular reference to the resolutions adopted by the governing body of the City of San Diego, having reference to the aforesaid controversy, correctly stated therein that "It is not true that by ***147** said resolutions, or by any resolution, or act of said common council, the plaintiff herein, acting by or through its legislative body, has expressly or impliedly admitted the ownership by the defendants or any of them, of the right to use and develop the waters or any of the waters of the San Diego river prior, superior or paramount to the rights of the plaintiff." With respect to the action of the Congress of the United States as to the form and scope of said proposed legislation, in view of the developed opposition of the defendants and interveners herein to the passage thereof, the trial court found that: "It is not true that the public lands committee of Congress, or any other congressional body, or any member of Congress, upon receiving or noting the protest of defendants, or any of them, or of any city or community served by Cuyamaca Water Company, or for any other reason, refused to adopt said proposed bill or house resolution unless or excepting this plaintiff admitted either expressly or impliedly an ownership and estate of these defendants, or any of them, in or to the waters or the use of the waters of the San Diego river. On the contrary, it is true that the Congress of the United States and the public lands committee of the Senate and House of Representatives, and each of them, and the members thereof, explicitly and unequivocally set forth in said bill, and insisted in setting forth in said bill, a provision declaring that nothing therein contained should be construed as affecting or intending to affect, or in any way to interfere with, the laws of the state of California relating to the control, appropriation, use or distribution of water used in irrigation or for municipal or other uses, or any vested rights acquired therein, and that the secretary of the interior and the City of San Diego, in carrying out the provisions of said act, should proceed in conformity with the laws of said state of California." The foregoing findings of the trial court based, as they are, on much probative evidence, which fully supports them, would seem to set at rest the question as to whether the plaintiff had lost, by its affirmative action, or by way of

estoppel, whatever rights we have found it to be possessed of prior to the year 1914, to the assertion of its paramount use whenever required of the waters of the San Diego River. There is, however, the further finding of the trial court already ***148** adverted to, which would seem to be conclusive as to the existence of any right whatever resting in estoppel on the part of the defendants and interveners herein to a superior right to that of the plaintiff in the use of the waters of the San Diego River, and which we deem it apt to requote, as follows: "It is not true that the plaintiff has been guilty of any carelessness or any culpable negligence resulting in the defendants, or any of them, being misled as to the state of the plaintiff's title as set forth in its amended complaint. Neither is it true that the defendants were at all times ignorant, or were at any time ignorant, of the claim of the plaintiff to the prior and paramount right to the use of the water of the San Diego river. Neither is it true that the defendants had no convenient or ready means of acquiring knowledge respecting the prior and paramount right of the plaintiff in and to the waters of the San Diego river, but, on the contrary, it is true that the defendants and their predecessors in interest at all times had convenient and ready means of acquiring knowledge respecting such right, and at all times knew of plaintiff's claim to such right. It is not true that such acts, omissions and declarations of the plaintiff as are herein found to have been performed, were said or done through fraud, and it is not true that any act or omission or declaration of the plaintiff constituted a fraud upon the defendants or any of them, and it is not true that any act or omission or declaration herein found to have been done or declared by the plaintiff has injured the defendants, or any of them, or justified the defendants or any of them, in believing that the plaintiff did not own or claim to own an estate in the waters of the San Diego river as alleged in said amended complaint; neither is it true that the defendants nor any of them relying or acting upon any belief fraudulently induced by the plaintiff have expended any money in the development of the waters of the San Diego river. Neither is it true that the defendants, nor any of them, or their predecessors in interest, relying or acting upon the belief that the City of San Diego did not own the prior and paramount right to the use of the waters of the San Diego river, expended large or any sums of money in developing said waters and acquiring an estate therein."

***149** (18) When we come to consider the essential and elementary basis of the doctrine and plea of estoppel in the light of the foregoing facts and findings of the trial court the conclusion would seem to be inevitable that the elements of estoppel are entirely lacking in this case. These elements of estoppel are all embraced in the definition thereof found in subdivision 3 of section 1962 of the Code of Civil Procedure, which reads as follows: "Whenever a party has, by his own declaration, act or omission, intentionally and deliberately led another to believe a particular thing true, and to act upon such belief, he cannot, in any litigation arising out of such declaration, act or omission, be permitted to falsify it." This court has frequently been called upon to interpret and apply the foregoing provision of the code. It is necessary to cite but two of the most recent cases in which it has done so. One of these is *Mercantile Trust Co. v. Sunset etc. Co.*, 176 Cal. 461, 472 [168 Pac. 1037, 1041], wherein this court said: "It is of the essence of an estoppel *in pais* that the party asserting such estoppel should not only have been ignorant of the true state of the facts, but that he should have relied upon the representation or admission of the adverse party." The other case is that of *Staniford v. Trombly*, 181 Cal. 372, 378 [186 Pac. 599, 601], wherein it was said with reference to the facts of that case: "There was an absence of the essential elements of estoppel, namely, false statements or concealments, or conduct amounting to false statements or concealments, with reference to the boundary made by one having knowledge, actual or virtual, of the facts, to one ignorant of the truth, with the intention, resulting in consummation, that he should act upon such false statements or concealments, or equivalent conduct."

In the presence of the foregoing findings of fact as made by the trial court, and in the light of the indispensable elements as thus stated by this court essential to be proven in order to the formation of a basis for the defense of estoppel, it is as difficult to understand as it is impossible to uphold the further findings and conclusions of the trial court to the effect that the defendants and interveners are entitled to the benefit of their plea of estoppel to the extent of their diversion and use of the waters of the San Diego River in the amount of twenty-seven cubic feet per second, ***150** or in any other amount, and that as against such right resting solely in such use the City of San Diego is estopped to assert its prior paramount right to the use of the waters of the San Diego River. That this conclusion may be fraught with certain disturbing consequences, affecting chiefly the interveners herein, and which have been insistently and even passionately urged by their

counsel in the presentation of this prolonged controversy, can be held to furnish no reason for a deprival of the plaintiff herein of its ancient, prior and paramount right to the use of the waters of the San Diego River as defined by this court upon the former hearing. It if be true, as the trial court expressly found it to be, that the San Diego Flume Company and its successor, the Cuyamaca Water Company, entered upon and prosecuted their plan for the diversion of the waters of the San Diego River with full knowledge as a matter of law, and also with full means of knowledge as a matter of fact, as to the existence of the prior and paramount right of the plaintiff as the successor of the pueblo to the use of the waters of the San Diego River, as such right is set forth and defined in our former opinion, and if it be further true, as it must be conceded to be, that the interveners are entitled to assert and insist upon no further rights or equities in respect to the use of said waters than those which were possessed by their predecessor in interest, the Cuyamaca Water Company, we are unable to perceive upon what principle of equitable application the public trust in which the City of San Diego holds its prior and paramount right to the use of the waters of said river to the full extent which the needs of the expanding city from time to time require, is to be subverted for the simple and only reason that other persons or other communities along the upper reaches of the river, with full knowledge of the aforesaid prior and paramount rights of the plaintiff, may have undertaken, at a considerable expenditure of money, to make a beneficial and profitable use of such waters.

(19) The only remaining question for our determination upon these appeals relates to that portion of the judgment of the trial court wherein it purported to enjoin the defendants and interveners from the doing of certain constructive work in connection with their conservation and diversion of the waters of the San Diego River except in subordination ***151** to the prior and paramount rights of the plaintiff therein, and also purporting to restrain the defendants and interveners from the assertion of any claims of right or title in or to the waters of the San Diego River except in subordination to the paramount rights of the plaintiff therein, and save and except in the amounts and to the extent in said judgment specified. In respect to the aforesaid portions of the judgment it is clear that the trial court has gone beyond the scope and issues of the instant action. This, as we have seen, and as this court has already decided upon the former proceeding, is an action purely declaratory in character and is one wherein the plaintiff has neither pleaded nor attempted to prove any facts which would entitle it to any other or affirmative relief beyond that of having its prior and paramount right to the use of the waters of the San Diego River established. This being so, the trial court was in error in attempting to give to its determination of this matter any other or further effect than that of a declaratory judgment.

It follows from the foregoing conclusions that the judgment herein must be and is hereby modified so as to read as follows:

It is adjudged, ordered and decreed that the plaintiff the City of San Diego was at the time of the commencement of this action and now is the owner in fee simple of the prior and paramount right to the use of all the water (surface and underground), of the San Diego River, including its tributaries, from its source to its mouth, for the use of said the City of San Diego and of its inhabitants, for all purposes, and that said defendants, and each of said defendants, said cross-complainants, and each of said cross-complainants, and said interveners, and each of said interveners, have not, and no one or more of them have any estate, right, title or interest in or to said waters; or any part thereof, or in or to the use of the same, or any right to take or use said waters, or any part thereof, save in subordination and subject to said prior and paramount right of the plaintiff, the City of San Diego, and that the plaintiff is entitled to no other or further relief herein than that afforded by the remedy of the declaratory judgment above set forth, and that the judgment herein, as thus modified, is affirmed, and ***152** that each party hereto shall pay its own costs upon these appeals.

Shenk, J., Seawell, J., Waste, C. J., Langdon, J., Curtis, J., and Preston, J., concurred.
Rehearing denied.

All the Justices present concurred.

263 Cal.App.2d 655, 69 Cal.Rptr. 788

PETRA DATIL et al., Plaintiffs and Appellants,
v.
CITY OF LOS ANGELES,
Defendant and Respondent.

Civ. No. 31745.
Court of Appeal, Second District, Division 4, California.
July 2, 1968.

HEADNOTES

(1)
Municipal Corporations § 436--Torts.
In a wrongful death action against a city by the widow and children of one under arrest killed by a fellow arrestee, the trial court properly found that both the deceased and the one who struck the fatal blow were prisoners within the meaning of Gov. Code, § 844.6, providing that a public entity is not liable for injury proximately caused by a prisoner or for an injury to a prisoner, even though at the time no complaint had been filed, no arraignment had been had, and no plea had been entered by either man, where both had been arrested by city police for intoxication, and where both had been booked and were at the time of the assault in the process of transfer from one city jail to another.

See **Cal.Jur.2d,** Municipal Corporations, § 50; **Am.Jur.,** Municipal Corporations (1st ed § 577).

(2)
State of California § 57--LiabilityMunicipal Corporations § 436--Torts.
The California Tort Claims Act does not violate the due process clause of U.S. Const., Fourth Amend., either as to the immunity thereby granted the state itself or that granted to subordinate public entities; the act, in effect, abolishes all governmental tort liability except as specifically provided by statute so that cases which were decided with respect to legal principles, statutes, and judicial decisions which had effective application prior to the enactment are no longer valid.

SUMMARY

APPEAL from a judgment of the Superior Court of Los Angeles County. Robert H. Patton, Judge. Affirmed.

Action against a city for wrongful death of person under arrest killed by fellow arrestee. Judgment for defendant affirmed.

COUNSEL
Joseph W. Fairfield and Ethelyn F. Black for Plaiantiffs and Appellants.
Roger Arnebergh, City Attorney, John A. Daly, Assistant City Attorney, and Arthur Y. Honda, Deputy City Attorney, for Defendant and Respondent.

COLLINS, J pro tem. *

This is an action for wrongful death against the City of Los Angeles, a municipal corporation, brought by the widow of Alejandro Datil, on behalf of herself and as guardian ad litem for the six minor children of Alejandro and herself.

The facts are these:

On March 30, 1964, Alejandro Datil, while celebrating his birthday consumed too much liquor, became intoxicated and unable to care for himself. He was picked up by a police officer of the City of Los Angeles and charged with violating section 647, subdivision (f), of the Penal Code (drunk in a public place). On the same day, at about the same time, one Rufus Rhines was also arrested for being drunk and was charged with the same offense. His criminal record which was in the files of the Los Angeles Police Department, but not known to the arresting officers, showed over 30 prior arrests.

Both Datil and Rhines were booked [1] at the Central Jail Division (150 North Los Angeles Street, Los Angeles) and then placed in a police bus with several other prisoners for transfer to the Main Jail Division (known as Lincoln Heights Jail, located at 401 North Avenue 19, Los Angeles). While ***657** en route to the main jail, Datil was loud and boisterous and appeared to be verbally abusive toward Rhines who was seated next to him. Datil spoke only in Spanish, which Rhines did not understand,

but there was no physical altercation between the two men while on the bus. When the bus arrived at the main jail, Rhines got off first and sat down on a bench in the hallway near the receiving section of the jail along with several other prisoners. Datil got off the bus and began walking down the hallway, crying or speaking very loudly in Spanish when suddenly without any warning or provocation Rhines jumped up and struck Datil in the face with his fist. Rhines' blow felled Datil, causing the latter to strike his head against the concrete floor, suffering a skull fracture and rendering him unconscious. He never regained consciousness. He was removed to the Los Angeles County General Hospital where he died on April 11, 1964, as a result of the injury. Later Rhines pleaded guilty to a charge of manslaughter (Pen. Code, § 192).

Thereafter plaintiff widow, on behalf of herself and children, filed with the City a claim for $1,000,000 which was rejected, following which the present action was commenced. The complaint alleged that the city police department was negligent and careless in supervising inmates and prisoners of the jail, and that as a proximate result thereof Alejandro Datil sustained the injury which resulted in his death. Defendant's answer denies the foregoing allegations and by way of affirmative defenses charged that Alejandro was guilty of negligence in that he was intoxicated, belligerent, antagonistic and combative with his fellow prisoners, that he failed to take care to avoid injury to himself, and that his injuries resulted solely from his own misconduct. Defendant also pleaded, as a special defense, the provisions of Government Code, section 844.6. That section, added in 1963, provides that, except in instances not applicable here, '... a public entity is not liable for: (1) An injury proximately caused by any prisoner. (2) An injury to any prisoner.'

Section 845.2 provides that (except as provided in other instances) 'neither a public entity nor a public employee is liable for failure to provide a prison, jail or penal or correctional facility or, if such facility is provided, for failure to provide sufficient equipment, personnel or facilities therein.'

Section 844 defines 'Prisoner' as follows: 'As used in this chapter, 'prisoner' includes an inmate of a prison, jail or penal or correctional facility.' ***658**

The trial before a judge sitting without a jury was had on the basis of a written stipulation of facts, augmented by reports of various municipal departments, payroll records, and the deposition of the plaintiff widow.

The court prepared findings of fact which included one that both the deceased, Alejandro Datil, and Rufus Rhines, who assaulted him, were prisoners in the custody of the Main Jail Division of the Los Angeles Police Department at the time of the assault, that Datil's death was not caused by negligence of the city in failing to provide him adequate protection. The court concluded that the action was barred by Government Code, sections 844.6 and 845.2, as to the defendant City and that the sole proximate cause of Datil's death was the act of Rhines.

This appeal presents three separate grounds for reversal: (1) Alejandro Datil and Rufus Rhines were not 'prisoners' at the time Rhines struck Datil. (2) The defendant City was guilty of negligence in not providing Datil adequate protection. (3) The California Tort Claims Act of 1963, of which Government Code sections 844.6 and 845.2 are a part, is unconstitutional to the extent that it extends immunity from liability to public entities and agencies below the level of the State of California itself.

() In support of their first ground of appeal, namely, that neither Datil nor Rhines was a 'prisoner' at the time of the assault by Rhines, plaintiffs contend that at that time no complaint had been filed, no arraignment had, and no plea to any charge entered by either man. Alluding to the statutory definition of prisoner in section 844, plaintiffs concede that the word 'includes' (as used in the phrase ' 'prisoner' includes an inmate') is a word of enlargement and not of limitation. (*Oil Workers Intl. Union v. Superior Court,* 103 Cal.App.2d 512, 570 [230 P.2d 71]; *People v. Western Air Lines, Inc.,* 42 Cal.2d 621, 639 [268 P.2d 723].) Nevertheless plaintiffs insist that the definition is controlled by the word 'inmate' which means 'a resident, dweller, lodger, at least with some degree of permanency,' and that the term 'prisoner' is to be construed in its narrow and technical sense as a 'person deprived of his liberty by virtue of a judicial or other lawful process; ...' (Plaintiffs cite 72 C.J.S. Prisoner, p. 847; 39 Cal.Jur.2d, Prisons and Prisoners, § 3, p. 638; 41 Am.Jur., Prisons and Prisoners, § 2, p. 886.) Quite understandably plaintiffs cite no authority for this novel synthesis of the statutory language; our own research has uncovered no ***659** such authority. On the contrary,

almost every popular dictionary as well as law dictionary and encyclopaedic work, states in words or substance that a prisoner is a person 'under arrest,' 'in custody,' 'in jail,' 'in prison'; in short, one who is being restrained involuntarily. The test is not whether he has been informed against, indicted, arraigned, tried or convicted. In this case the record shows that both Datil and Rhines had been booked (as provided in Pen. Code, § 7, subd. 21) and were in the process of transit from one jail to another. Clearly they were not being transferred in the course of a voluntary tour of city penal institutions, or otherwise as civic guests of the City of Los Angeles. An incarcerated, love-struck poet might sing out euphorically, but certainly not accurately, that

'Stone walls do not a prison make Nor iron bars a cage.' [2]

But here the two inebriates could have had no such illusion as to their temporary status.

It is of no significance that the lethal blow was struck while the men were in the receiving room as distinguished from a corridor, recreation area, locker room, mess hall or cell block. Datil and Rhines were prisoners in jail by any sensible intendment of the English language. [3] We find plaintiffs' first ground of appeal entirely without merit.

The second ground of appeal is that the city police were negligent in not protecting Datil from injury. This ground apparently implies municipal liability for acts of its police as having some vicarious basis. In passing, it is noted that the complaint did not join as defendants any police officer or jail employee or plead any alternative theory of liability. [4] In any case, the claim, so far as this case is concerned, need not be ***660** separately discussed for it is governed by our disposition of the remaining ground of appeal.

() The third ground of appeal is that the California Tort Claims Act of 1963 is unconstitutional. Plaintiff cites a number of cases which were decided with respect to legal principles, statutes and judicial decisions which had effective application prior to the enactment of the Tort Claims Act in 1963 and in some instances related to special legislation or arose under very dissimilar contexts. Thus they do not require individual consideration here.

At common law the distinction between purely governmental functions and proprietary functions of public entities was recognized as a basis for determining immunity or nonimmunity from tort liability. Under that test the function of maintaining and operating jails and prisons was recognized as a governmental function.

However, in recent times, the immunities attaching to governmental functions has progressively eroded as a result of special legislation and court interpretations of ameliorative statutes, culminating in the case of *Muskopf v. Corning Hospital Dist.* (1961) 55 Cal.2d 211 [11 Cal.Rptr. 89, 359 P.2d 457], which virtually abrogated the doctrine of governmental immunity in California. Following that decision and relying largely on the study and report by the California Law Revision Commission, the Legislature enacted the California Tort Claims Act of 1963. The result is that today there is no common law governmental tort liability in this State and '[e]xcept as otherwise provided by statute' there is no liability on the part of a public entity for any act or omission of itself, a public employee or any other person. (Gov. Code, § 815.)

It is plaintiffs' specific contention that the California Tort Claims Act violates the due process clause of the Fourteenth Amendment to the United States Constitution in that it illegally grants an immunity from liability for torts to subordinate public entities, which results in unequal protection of the law. As we read plaintiffs' brief, they concede that immunity at the state level violates no constitutional rights of the private citizen, but that when the state undertakes to 'delegate' its own immunity to subordinate entities, such as counties and cities, unconstitutionality is the result.

We are unable to follow, much less accept, plaintiffs' argument. For present purposes it is enough to observe that in all of the cases in which the Tort Claims Act of 1963 has been ***661** subjected to constitutional attack to date, the appellate courts have upheld its constitutionality. (See *County of Los Angeles v. Superior Court* (1965) 62 Cal.2d 839 [44 Cal.Rptr. 796, 402 P.2d 868]; *Reed v. City & County of San Francisco* (1965) 237 Cal.App.2d 23 [46 Cal.Rptr. 543].)

We find plaintiffs' third ground of appeal to be lacking in merit.

The judgment is affirmed.

A petition for a rehearing was denied July 18, 1968, and appellants' petition for a hearing by the Supreme Court was denied August 28, 1968.

Files, P. J., and Jefferson, J., concurred.

Footnotes

* Assigned by the Chairman of the Judicial Council.

FN1 Penal Code, section 7, subdivision 21, defines 'book' as used in this context, as follows:

'21. To 'book' signifies the recordation of an arrest in official police records, and the taking by the police of fingerprints and photographs of the person arrested, or any of these acts following an arrest.'

2 Richard Lovclace (1618-1657) 'To Althea From Prison.' Compare 'Stone Walls a Prison Make, But Not A Slave'-Wm. Wordsworth (1770-1850) 'Humanity.' See also: 'Ballads of Reading Gaol'-by Oscar Wilde.

3 Jail and 'gaol' are synonymous. In England the archaic spelling 'gaol' still persists chiefly due to statutory and official tradition, but it is considered obsolete in present-day literary and spoken form. In the United States 'jail' has always been both the official and popular mode of spelling. See The Oxford English Dictionary-(Clarendon Press, Oxford) Vol. 5, 1933.

4 This case is not based on any claim under Government Code, section 845.6, that the defendant city or its employees failed to summon medical care, knowing, or having reason to know, that the prisoner was in immediate need of such care. Thus, the cited case of *Hart v. County of Orange* (1967) 254 Cal.App.2d 302 [62 Cal.Rptr. 73] has no relevancy here.

66 Cal.App. 693, 227 P. 243

STANLEY DAVIE, Appellant,
v.
BOARD OF REGENTS, UNIVERSITY OF CALIFORNIA, et al., Respondents.

Civ. No. 4536.
District Court of Appeal, First District, Division 1, California.
April 24, 1924.

HEADNOTES

(1)
MUNICIPAL CORPORATIONS--DOUBLE CHARACTER--LIABILITY FOR TORTS.
A municipal corporation has a double character-the one governmental, legislative or public; and the other proprietary or private-and, when acting in a private capacity, its liabilities arising out of either contract or tort are the same as those of natural persons or private corporations.

See 18 **Cal. Jur.** 1000, 1092, 1096; 19 **R. C. L.** 1106 et seq.

(2)
UNIVERSITIES--MAINTENANCE OF INFIRMARY--GOVERNMENTAL FUNCTION--LIABILITY FOR TORTS.
The maintenance by the Board of Regents of the University of California of an infirmary for the sole purpose of safeguarding and protecting the health of the student body constitutes the exercise of a duty involving governmental functions in the highest degree, and is authorized by article IX, section 9, of the constitution; and, it being in no sense an organization for profit, the imposition upon each student of a small infirmary fee does not convert such governmental function into a proprietary one, so as to render the Board of Regents liable in damages for the negligent acts of its agents and servants in the conduct of the infirmary.

(3)
PLEADING--DEMURRER--GROUNDS--APPEAL.
Upon appeal from a judgment entered upon the failure of plaintiff to amend his complaint, after demurrer sustained, the appellate court is free to consider each ground of defendant's demurrer to the complaint, and if the demurrer is well taken on any ground properly specified in the demurrer the judgment of the trial court must be affirmed, even though the trial court may have deemed it sufficient in that respect and may in its order have declared it defective only in some particular in which the appellate court holds it to be good.

See 2 **Cal. Jur.** 811; 2 **R. C. L.** 191.

(4)
UNIVERSITIES--MALPRACTICE BY PHYSICIAN IN INFIRMARY--REMEDY OF STUDENT.
While it is unfortunate that a student at the University of California should suffer through the negligence or misconduct of the physician entrusted with the care of administering the affairs of the infirmary of that institution, and the condition of such student brought about through the malpractice of such physician is a great hardship upon him, it is one which cannot be remedied by giving him damages at the expense of the institution, but he is left to his remedy against those through whose fault he was injured.

See 18 **Cal. Jur.** 980; **R. C. L.** 484; 19 **R. C. L.** 922.

(1) 28 **Cyc.**, pp. 1257, 1258. (2) 11 **C. J.**, p. 1000, sec. 42 (1926 Anno.). (3) 4 **C. J.**, p. 664, sec. 2557. (4) 30 **C. J.**, p. 469, sec. 14.

SUMMARY

APPEAL from a judgment of the Superior Court of Alameda County. Jos. S. Koford, Judge. Affirmed.

The facts are stated in the opinion of the court.

COUNSEL

McGee, Sapiro & Thomson, McGee & Corgiat and Richard N. Mather for Appellant.
J. M. Mannon, Jr., for Respondents.

TYLER, P. J.

This action was brought to recover damages for personal injuries alleged to have resulted in consequence of the negligence of a physician in charge of an infirmary

maintained by defendant at the University of California at Berkeley. A demurrer, both general and special, was interposed to the complaint primarily upon the ground that it shows defendant to be a state agency in charge of a governmental function, and that the infirmary, ***695** being maintained in connection with and as a part of this educational institution, defendant is not liable for the alleged torts of its agents in the operation thereof. The demurrer was sustained, and upon plaintiff's failure to amend judgment was entered in favor of defendants, and plaintiff appeals.

The complaint alleges that prior to and after the third day of April, 1920, plaintiff was a duly enrolled and attending student in one of the courses at the University of California; that it is one of the rules and regulations of the university that before a person can become a regularly enrolled student he must pay an infirmary fee of three dollars, and thereafter semi-annually, which fee the plaintiff paid, and had thereby become entitled to consultation and medical and hospital care at the infirmary thus operated by defendant corporation. There is no charge, so it is alleged, beyond the infirmary fee for ordinary hospital and medical services; but if a surgical operation or special nurse is required the cost thereof must be borne by the patient. The complaint, proceeding, recites that defendant corporation collected the infirmary fee above referred to from several thousands of students each year and held the same as its own funds, and that the students of said university, including plaintiff, did not acquire any interest in the money so paid by them, and that defendant thereby realized a large profit in the administration of the infirmary conducted by it through the collection and retention of such fees required to be paid by all the students. Then follow allegations to the effect that the infirmary is wholly maintained and supported by the fees and charges paid by those entitled to receive treatment, and is so conducted and maintained by defendant separate and apart from its duties as the governing body of the University of California. Further recitals are to the effect that defendant for an adequate and valuable consideration in addition to the infirmary fee mentioned undertook and agreed to perform an operation upon the plaintiff for the removal of his tonsils, and undertook and agreed to render all necessary medical and surgical treatment incident thereto. It is charged that in the course of said operation defendant used negligent, careless and improper methods and treatment, resulting ultimately in a dislocation of the jaw-bone and a fracture of the left side ***696** of the posterior arch of the atlas vertebrae of plaintiff's neck, which injuries, it is claimed, are permanent. Damages in the sum of $151,433.35 are prayed for.

The main contention of appellant and the one chiefly relied upon for a reversal is that the complaint shows that defendant has undertaken to do something separate and apart from any educational function, and in consequence thereof has become liable for the alleged tortious act. In support thereof it is argued that the defendant corporation, The Regents of the University of California, has a dual character-governmental and also proprietary and private; and when acting in the latter capacity its liabilities arising out of either contract or tort are the same as those of natural persons or private corporations, and he invokes the application in his favor of the rule established by the decisions of this state, that a municipal corporation is liable for torts of its agents committed in the performance of activities or functions purely private and proprietary in their nature.

Respondent, on the other hand, contends that the pleading shows on its face that the infirmary is maintained as a part of the University of California, operated only in connection with the educational functions thereof, and this being so, it is not liable for the torts of its agents committed in connection therewith. It further contends as a matter of law that the distinction in actions of this character between governmental and proprietary functions is limited in its application to municipal corporations, and does not extend to state agencies, such as counties, school districts, road districts and The Regents of the University of California, and that this distinction between torts committed in the course of the exercise of public and governmental functions on the one hand, and of private and proprietary activities on the other, has never been applied to any but municipal corporations; for which reason it claims that the rule invoked has no application to the instant case.

We will proceed to a consideration and discussion of the first contention, namely, whether the allegations of the complaint establish the fact that defendant, in the operation of the infirmary, conducts a private and proprietary enterprise, or whether it shows that the infirmary was in reality a ***697** department of the university conducted by respondent as an educational, and therefore public, activity.

In support of his position appellant claims that it is apparent from the various organic and legislative acts that the legislature had in contemplation two separate kinds of property which the Board of Regents were entitled to manage and control: First, that which belonged to the state outright and which the Regents could not alienate; second, that class of property which the board acquired by gift for investment and reinvestment, and which is separate and distinct from the properties donated by the state for the general purpose of its creation; that as to this class the board acquired such property for business purposes; that it operates the same for such purposes separate and apart from any educational function and derives revenue and profits therefrom, and, therefore, should, like an individual, become liable to third persons for its torts-partaking in this respect of the dual character of municipal corporations considered from the point of view of their twofold activities.

[1] That a municipal corporation has a double character and, when acting in a private capacity, its liabilities arising out of either contract or tort are the same as those of natural persons or private corporations has long since been definitely settled and established. In treating of this subject Judge Dillon in his work on Municipal Corporations lays down the rule that a municipal corporation possesses a double character-the one governmental, legislative or public; the other in a sense proprietary or private, and says that the distinction between these is sometimes, indeed very often, difficult to trace. In its governmental or public character the corporation is made by the state one of its instruments or the local depositary of certain limited and prescribed political powers, to be exercised for the public good. But in its proprietary or private character the theory is that the powers are supposed not to be conferred primarily or chiefly from considerations connected with the government of the state at large, but rather for the private advantage of the compact community which is incorporated as a distinct legal personality or corporate individual; and as to such powers and to property acquired thereunder and contracts made with reference thereto, the corporation is to ***698** be regarded as private in character (Dillon on Mun. Corp., 5th ed., sec. 109).

This doctrine has received general recognition in this state. Accordingly, it has been held that a municipal corporation when acting in a private or proprietary capacity is liable for its tort (*Chafour v. Long Beach*, 174 Cal. 478 [Ann. Cas. 1918D, 106, L. R. A. 1917E, 685, 163 Pac. 670]).

The question, however, as to whether or not the maintenance of a hospital by a municipality is a governmental function is with us one of first impression. Cases dealing with the liability of municipal corporations growing out of the operation and maintenance of different activities, however, are numerous; and they are illuminating as they discuss and determine the difference between governmental and proprietary functions.

In *Sherbourne v. Yuba County*, 21 Cal. 113 [81 Am. Dec. 151], it was sought to hold a county liable to one who while an inmate of a hospital suffered injuries from unskillful treatment. It was there held that a *quasi* corporation such as a county is not liable for acts of officers or employees which it appoints in the exercise of a portion of the sovereign power of the state by the requirement of a public law, simply for the public benefit and from which the county as a corporation derives no benefit. This case, however, was decided upon the ground that defendant county exercised exclusively governmental functions.

In *Davoust v. City of Alameda*, 149 Cal. 69 [9 Ann. Cas. 847, 5 L. R. A. (N. S.) 536, 84 Pac. 760], the defendant city was operating an electric light plant for the purpose of lighting the city and furnishing electric light to its inhabitants for domestic use. This activity was held not to be a governmental function.

In *Chafour v. Long Beach*, 174 Cal. 478 [Ann. Cas. 1918D, 106, L. R. A. 1917E, 685, 163 Pac. 670], the question was again presented and discussed. There plaintiff's intestate was killed by the collapse of a platform in an auditorium erected and maintained by the city. The maintenance of the auditorium was by virtue of a permissive statute which contemplated that the hall should be let for profit. It was not devoted to any educational or governmental purpose. Its operation was therefore held to be a private and proprietary activity. In the opinion it is stated ***699** that a municipality is protected from liability only while exercising the delegated functions of sovereignty, which consist of those pertaining to the making and enforcing of police regulations, to prevent crime, to preserve the public health, to prevent fires, the caring of the poor and the education of the young (*County of Alameda v. Chambers*, 35 Cal. App. 537 [170 Pac. 650]).

In *Keller v. Los Angeles*, 179 Cal. 605 [178 Pac. 505], the complaint demurred to alleged that the municipality maintained a summer camp outside of its corporate limits under authorization of certain provisions of its charter for the purpose of giving the children of the city a vacation, at certain prescribed charges to be paid by them to the city. The demurrer was sustained upon the ground that the city was, in the operation of this activity, engaged purely in the exercise of its governmental function pertaining to the health of the children of the city, and was, therefore, not liable for injuries suffered by the plaintiff by reason of the negligence of its servants in caring for such plaintiff after he had been accidentally injured while an inmate of such camp. It is there further held that the activities involved were referable to the duty of maintaining the public health, and had nothing of the nature of an ordinary business enterprise.

Direct authority, however, upon the precise question is not wanting in other states. Many cases may be found in the various jurisdictions upon the subject, where it is generally held that in the absence of statutory provision to the contrary a hospital created and existing for purely governmental purposes and under the control of the municipality or state is not liable for injuries to a patient caused by the negligence or misconduct of its employees, although a statute, as here, may declare it to be a corporation which may sue and be sued. The maintenance of such hospitals is held to be for the public welfare and the advancement of public health; and in the operation thereof municipalities or the state exercise governmental or political functions. (30 Cyc. 465.) Thus, in *Brouder v. City of Henderson*, 182 Ky. 771 [207 S. W. 479], it is said that the power or even the duty on the part of a municipal corporation to make provision for the public health and for the care of the sick appertains to it in its governmental or public capacity, and ***700** that no element of safety is more important than those pertaining to public health; and accordingly it is there held that where a city establishes a hospital it is not responsible to persons injured by reason of the misconduct of its agents or employees. (See, also, 19 Ruling Case Law, 1122; 7 Cal. Jur., 518; *Tollefson Admx. v. City of Ottawa*, 228 Ill. 134 [11 L. R. A. (N. S.) 990, 81 N. E. 823]; *Summers v. Board of Commissioners*, 103 Ind. 262 [53 Am. Rep. 512, 2 N. E. 725]; *Zummo v. Kansas City*, 285 Mo. 222 [225 S. W. 934].)

We do not deem an extensive review of the authorities from the other states essential, and it would answer no useful purpose. Suffice it to say that they generally hold that the maintenance of a hospital by a municipality is a governmental function, and that in the conduct thereof the municipality is not liable for the tortious acts of its employees.

[2] Reading the complaint in the present action from its four corners it conclusively appears therefrom that the infirmary in question is conducted by the defendant corporation for the exclusive use of the students, and that it is so conducted by it for the sole purpose of safeguarding and protecting the health of the student body. This being so, it is in no sense an organization for profit, and the imposition of the small fee does not convert this governmental function into a proprietary one (*Melvin v. State*, 121 Cal. 16 [53 Pac. 416]; *Kellar v. City of Los Angeles*, 179 Cal. 605 [178 Pac. 505]; *Manning v. City of Pasadena*, 58 Cal. App. 672 [209 Pac. 253]). Nor does the further recital that the respondent conducts it separate and apart from its duties as a governing body have this effect, for this is a mere conclusion of the pleader, and it is negatived by the other allegations of the complaint.

This being so, the promotion and welfare of the students in this respect must be held to be the exercise of a duty involving governmental functions in the highest degree.

The reason for the rule that the policy of the law denies liability of a state or municipality for negligence of its servants and physicians is that such an activity being a governmental agency, to permit such liability would result in enormous public burdens (*Jenkins v. Charleston Gen. Hospital*, 90 W. Va. 230 [22 A. L. R. 323, 110 S. E. 560]). ***701**

That respondent had the power to establish and maintain the infirmary there can be no question. The constitution provides: "The corporation shall also have all the powers necessary or convenient for the effective administration of its trust." (Const., art. IX, sec. 9.)

That the maintenance of the health of the students is an educational activity is indicated not only by the cases cited but also by section 1618a of the Political Code (Stats. 1919, p. 128), which provides that school trustees and county boards of education may provide for proper health supervision in the public schools.

Our attention is called to the cases of *Bloom v. City and County of San Francisco*, 64 Cal. 503 [3 Pac. 129], and *Lundy v. Delmas*, 104 Cal. 655 [26 L. R. A. 651, 38 Pac. 445], as holding contrary to the views herein expressed. The Bloom case has to do with the maintenance of a nuisance. It therefore presents an exception to the general rule. Where a municipality maintains a nuisance it is liable in damages, and cannot escape such liability on the ground that it is exercising a governmental function. (*Perkins v. Blauth*, 163 Cal. 782 [127 Pac. 50].) *Lundy v. Delmas* merely holds that the regents of the university are not individually liable for the negligence of the corporation in failing to properly maintain a telegraph line belonging to it. It does not hold the corporation to be liable for the torts of its agents.

Other cases cited deal with the personal liability of agents, and when exceeding their powers. A discussion of these cases is unnecessary, for even conceding that certain language used therein might be construed as supporting appellant's contention, we could not follow them in view of the generally accepted doctrine.

The conclusion we have reached renders unnecessary a discussion of the further question presented by respondent, namely, that defendant is a state agency, and therefore immune from liability irrespective of any distinction between the twofold activities of municipalities.

As above recited, the demurrer interposed was both general and special. The minute order of the trial court was "that the demurrer of the defendant The Regents of the University of California be sustained." Defendant by special demurrer pointed out, among other things, that the ***702** complaint was ambiguous and unintelligible for the reason that it failed to state in what manner the infirmary was conducted separate and apart by defendant from its duties as governing body of the University of California.

It is manifest, and indeed it is not otherwise contended, that the gravamen of plaintiff's action is that defendant in the operation of the infirmary was conducting a private enterprise. **[3]** It is here claimed by appellant that any defect in his pleading in this particular cannot here be availed of, for the reason that the action of the trial court was bottomed upon the general demurrer only, for which reason we are restricted in a review of the decision to consideration of the propriety of the action of the trial court in sustaining the general demurrer to the complaint.

We do not so understand the law. In reviewing an order sustaining a demurrer the appellate court is not so limited in its action. If the complaint is insufficient upon any ground properly specified in the demurrer the order must be sustained though the lower court may have deemed it sufficient in that respect and may in its order have declared it defective only in some particular in which we hold it to be good (*Burk v. Maguire*, 154 Cal. 456 [98 Pac. 21]; *Sechrist v. Rialto Irrigation District*, 129 Cal. 240 [62 Pac. 261]). In other words, this court is free to consider each ground of respondent's demurrer to the complaint; and if the demurrer was well taken on any ground the judgment below must be affirmed. If we are correct in our conclusion that the allegations of the complaint show that the infirmary was conducted by respondent as part of the activities of the educational institution, an amendment would avail plaintiff nothing. However this may be, uncertainties in this particular were pointed out to plaintiff under the demurrer; he elected to stand upon his complaint for obvious reasons. Having done so, the judgment on demurrer will not be reversed merely in order to allow an amendment (2 Cal. Jur. 995; 4 Corpus Juris, 1195).

[4] In conclusion it may be said that it is indeed unfortunate that plaintiff should suffer through the negligence or misconduct of the physician entrusted with the care of administering the affairs of the infirmary, and the condition of plaintiff brought about through the alleged malpractice of such physician (assuming the allegations to be true) is ***703** a great hardship upon plaintiff; but it is one which cannot be remedied by giving him damages at the expense of the institution in question. Whatever our personal inclination might be, we are bound to take the law as we find it. For such damages a claimant is left to his remedy against those through whose fault he was injured (*Maia v. Eastern State Hospital*, 97 Va. 507 [47 L. R. A. 577, 34 S. E. 617]).

For the reasons given we are of the opinion that the demurrer of respondent corporation to the amended complaint was properly sustained, and the judgment rendered thereon should be and it is hereby affirmed.

St. Sure, J., and Knight, J., concurred.

A petition by appellant to have the cause heard in the supreme court, after judgment in the district court of appeal, was denied by the supreme court on June 23, 1924.

108 Cal.App.2d 669, 239 P.2d 656

THOMAS E. DAVIS, Appellant,
v.
CITY OF SANTA ANA, etc., et al., Respondents.

Civ. No. 4420.
District Court of Appeal, Fourth District, California.
Jan. 15, 1952.

HEADNOTES

(1)
Municipal Corporations § 131--Police Power--Garbage.
Collection and disposal of garbage and trash by a city of the fifth class constitute a valid exercise of police power.

Validity of regulations as to garbage, notes, 72 **A.L.R.** 520; 135 **A.L.R.** 1305. See, also, **Cal.Jur.,** Municipal Corporations, § 149; **Am.Jur.,** Municipal Corporations, § 298.

(2)
Municipal Corporations § 97--Governmental Functions.
Collection and disposal of garbage and trash by a city of the fifth class constitute a governmental function which the city may exercise in all reasonable ways to guard the public health.

(3)
Municipal Corporations § 131--Police Power--Garbage.
A city of the fifth class may itself collect and dispose of garbage, grant exclusive collection and disposal privileges to one or more persons by contract, or permit private collectors to make private contracts with private citizens, the gathering of garbage and trash being a matter which public agencies are authorized to pursue by the best means in their possession to protect the public health.

(4)
Municipal Corporations § 356--Contracts--Bids.
In the absence of a charter or statutory requirement, municipal contracts need not be let under competitive bidding.

(5)
Municipal Corporations § 351--Contracts--Letting of Contracts.
Not all public contracts are contemplated by Gov. Code, §§ 37901-37903, relating to letting contracts by cities of the fifth and sixth classes.

(6)
Municipal Corporations § 351--Contracts--Collection of Garbage.
Gov. Code §§ 37901-37903, do not contemplate a contract whereby a city of the fifth class authorizes private individuals to collect the city garbage.

(7a, 7b)
Municipal Corporations § 373--Property--Disposition.
Where a city is required by ordinance to secure bids on sale of its surplus property but is authorized by statute to sell its property without bids, it will be presumed that before certain property was sold without bids the council determined it not to be surplus, that it should be sold, and that the sale would be for the city's benefit.

(8)
Municipal Corporations § 205--Council--Delegation of Power.
A council may not delegate authority, which it holds under a statute and under an ordinance controlling sale of surplus municipal property, to determine whether certain property is surplus and whether a sale thereof was for the city's common benefit.

See **Cal.Jur.,** Municipal Corporations, § 199; **Am.Jur.** Municipal Corporations, § 53.

(9)
Municipal Corporations § 373--Property--Disposition--Repurchase on Cancellation of Contract.
The council of a city which contracted with individuals for the collection by them of the city garbage and sold its collecting equipment to them, with a proviso for repurchase on cancellation of the contract for unsatisfactory service, was justified in determining the equipment to be not surplus, where the councilmen may have recognized a shortage of such equipment and that they would be derelict in their duty should the city be without equipment in event the contract were cancelled.

(10)
Municipal Corporations § 373--Property--Disposition--Power of Council.
The legislative body of a city of the fifth class is vested with the free and unrestricted discretionary power to determine what personal property shall be disposed of and when and how the disposition shall be made, the only restriction imposed by the general basic law being that the disposition shall be for the benefit of the city and its constituents. (Gov. Code, §§ 37350, 37351.)

(11)
Municipal Corporations § 373--Property--Disposition--Power of Council--Judicial Interference.
Courts should not interfere with a city council's action in conditionally selling, without calling for bids, the city's garbage collection equipment to individuals as part of a contract whereby they assumed the duty of collecting the city garbage, where fraud is not charged, and the council is not shown to have exceeded its authority or to have acted arbitrarily, oppressively or unjustly, and where failure to sell the equipment to such individuals could render performance of the contract impossible and thereby create an unhealthy condition in the city.

(12)
Judgments § 12--Declaratory Judgments--Pleading.
A complaint for declaratory relief is sufficient if it sets forth facts showing the existence of an actual controversy relating to the legal rights and duties of the parties under a written instrument, and requests that these rights and duties be adjudged.

(13)
Judgments § 14--Declaratory Judgments--Refusal of Relief.
It is not an abuse of discretion to deny declaratory relief, where the only controversy alleged is fully presented by the pleadings and ruled on adversely to plaintiff.

See **Cal.Jur. 10-Yr.Supp.,** Declaratory Relief, § 23; **Am.Jur.,** Declaratory Judgments, § 14.

(14)
Pleading § 243--Motion for Judgment on Pleadings.
Where a general demurrer is incorrectly overruled and this fact called to the court's attention by presentation of additional authorities, the court is authorized to grant a judgment on the pleadings, if proper, the ruling on the demurrer being deemed an irregularity.

(15)
Pleading § 242--Motion for Judgment on Pleadings.
A motion by defendant for judgment on the pleadings operates as a general demurrer to the complaint and the averments of the complaint, for the purpose of the motion, must be treated as true.

(16)
Pleading § 243--Motion for Judgment on Pleadings.
A motion by defendant for judgment on the pleadings should be granted where no material issue requiring proof is joined.

(17)
Municipal Corporations § 373--Property--Disposition--Actions Involving.
In an action attacking the validity of a city's contract whereby it authorized individuals to collect the city garbage and agreed to sell them its garbage collecting equipment, it is proper to grant a motion to strike evidence aimed at proving the city would suffer damage from selling the equipment other than at public auction, where fraud is not alleged and it is not shown that the council abused its discretion or acted illegally or arbitrarily

(18)
Appeal and Error § 1483--Harmless Error--Pleading--Judgment on Pleadings.
A plaintiff is not prejudiced by the court's action in ordering a judgment on the pleadings pursuant to defendant's motion for a nonsuit, where the same result would have obtained had the motion been for judgment on the pleadings, and where the appellate court could have ordered entry of such a judgment.

SUMMARY

APPEAL from a judgment of the Superior Court of Orange County. Robert Gardner, Judge. Affirmed.

Action to enjoin city from complying with terms of a contract, and for declaratory relief. Judgment for defendants on the pleadings, affirmed.

COUNSEL

Forgy, Reinhaus & Forgy and Mark A. Soden for Appellant.

Z. B. West, R. M. Crookshank, Harvey, Rimel & Johnston and Jack J. Rimel for Respondents.

GRIFFIN, J.

Plaintiff, on behalf of himself and other taxpayers of the city of Santa Ana, brought this action against the defendants, city of Santa Ana, a municipal corporation of the fifth class, its mayor, councilmen, city clerk and city treasurer (hereinafter referred to as defendant city), and against defendants Paul M. Johnson and associates (hereinafter referred to as the Johnsons) to enjoin the defendant city and defendants Johnson from paying or receiving any money from the city treasurer under the terms of a contract and supplemental agreement for the disposal of the city trash and garbage, and enjoining the city from selling or transferring to defendants Johnson any equipment used by said city in such operation.

In the second count of the complaint, wherein plaintiff repeats and realleges the allegations set forth in the first count, he asks that the rights of the respective parties be declared.

The complaint sets up the contract (Exhibit A) entered into on November 2, 1950 (a copy of which is incorporated therein by reference) which recites generally that:

"Whereas ... the City has handled garbage and trash collections within its exterior boundaries as a corporate function and now wishes to relieve itself of said duty by granting to private persons ... a contract for said collections and,

"Whereas, second parties have filed with the City their bid and proposal in writing to perform said functions for and on behalf of the City, as a private operation upon certain terms and conditions.

"Now, Therefore, ... it is agreed ...

"That the City shall grant to the second parties the right, privilege and duty to collect and dispose of all trash and garbage ... for a period of four (4) years. ...

"That as consideration ... the City agrees to pay to the second parties ninety cents (90¢) per month for each water meter record. ...

"... the second parties shall have the right to sell or otherwise dispose of garbage collected. ...

"The second parties further agree to purchase from the City the equipment now being used by the City in its trash and ***673** garbage operations consisting of some ten (10) pieces of rolling stock at the Blue-Book value, or at the valuation set by a board of appraisal. ...

"That should either party to this agreement fail or refuse to carry out the terms of this contract ... the other party may cancel the same. ...

"In the event of cancellation of this contract by either party, ... the City shall have the right to repurchase from the second parties all rolling stock sold to said second parties, still in use, under the same terms and conditions as said rolling stock was sold to second parties."

On November 6, 1950, a supplemental agreement (Exhibit B) was executed by the parties, modifying the terms of the first agreement to the extent that the city would allow the Johnsons to continue storing the garbage trucks at the city yard at a fixed rate and that they would pay $100 per month to a city employee for accepting complaints regarding failure of garbage collection.

The complaint further alleges that the purported contract was entered into by the city, without notice inviting bids, and that the contract was not let to the lowest responsible bidder after notice; that the contract provides for an expenditure of city funds exceeding $1,000 and that by reason thereof the contract and supplemental agreement were illegal and void; that the city did not comply with a certain specified city ordinance No. 1296, in respect to the sale of the equipment. This ordinance, set forth in the pleadings, provides generally that when a department head determines that there is personal property in his department which has "no present or prospective use to which the city of Santa Ana may put said property" and is "surplus," he must report that fact to the city council. Reports of surplus property must be read at council meetings and the property cannot be sold until the council approves the report and declares the property surplus. The property is not to be sold if another department has a use

for the personal property for a city purpose. When the council determines that sufficient surplus has accumulated it shall fix the date for the sale, which shall be at public auction for cash.

It is then alleged that since the city did not comply with the provisions of this ordinance, it had no power to sell the city-owned equipment to the Johnsons, and for this additional reason that portion of the contract relating to the sale was illegal and void. ***674**

General demurrers were filed on behalf of all defendants (except two councilmen who were not present and voting when the contracts were authorized) claiming that the complaint did not state a cause of action on either count. These demurrers were overruled. Answers were filed by the demurring defendants in which they denied generally that the contract or subsequent agreement was invalid for the reasons claimed. They set up the official minute entries of the City Council which recited that the mayor and clerk were "authorized to execute the agreement" dated November 2d, 1950, with the Johnsons, as well as the minutes of November 6, 1950, authorizing the mayor and clerk to execute the supplemental agreement. They admitted that these contracts were entered into and executed by the city "without notice inviting bids" and that the expenditures involved exceeded $1,000. They set out ordinance No. 1296 in its entirety, admitted the sale of the rolling stock equipment provided for in the contract was not made in accordance with the procedure prescribed in that ordinance; claim that the city was not required to follow such procedure; and that at the time of the execution of the contracts the city did have and still has a "prospective use" for such equipment. They deny that the contract of sale was void or illegal or in violation of law. As to the second count, they reallege the allegations set forth in their answer to the first count and deny the remaining allegations of that count. The case came on for trial. Three witnesses were sworn on behalf of plaintiff. At the conclusion of plaintiff's case defendants moved to strike all of the testimony offered by plaintiff upon the ground that the complaint did not state a cause of action, and moved for a "judgment of nonsuit" upon the "ground set forth in sec. 581 Code of Civil Procedure." The court granted defendant's motion to strike and granted a "motion for judgment on the pleadings," after stating that defendants had erroneously "entitled" it "a motion for a nonsuit."

The principal question to determine upon this appeal is whether the city was obligated, under sections 37901-37903 of the Government Code to advertise and give notice inviting bids to let the contract for disposal of rubbish and garbage to the lowest responsible bidder. Section 37902 provides that:

"When the expenditure required for a *public project* exceeds one thousand dollars ($1000.00) it shall be contracted for and let to the lowest responsible bidder after notice." (Italics ours.) ***675**

Section 37901 defines a "public project" as:

"(a) A project for the erection, improvement and repair of public buildings and works.

"(b) Work in or about streams, bays, water fronts, embankments, or other work for protection against overflow.

"(c) Street or sewer work except maintenance or repair.

"(d) Furnishing supplies or materials for any such project, including maintenance or repair of streets or sewers."

As will be noted, there is nothing in the section which states that the letting of a contract for the collection of city rubbish and garbage is a "public project." Counsel for plaintiff insists that the historical background of these sections indicates that such a contract was intended by the Legislature to be classified as a "public project," and cites Stats. 1883, chap. VI, article III, section 777, page 258. This section contained the marginal note: "Public work to be contracted for." It provided in part that:

"In the erection, improvement, and repair of all public buildings and works, in all street and sewer work, and in all work in or about streams, bays, or water fronts, or in or about embankments, or other works for protection against overflow, and in furnishing any supplies or materials for the same, when the expenditure required for the same exceeds the sum of one hundred dollars, the same shall be done by contract, and shall be let to the lowest responsible bidder, after due notice. ..."

Also cited is the amendment to that section in Statutes 1915, chapter 663, section 1, page 1304, wherein the amount was increased to $300, and the caption or

preamble in that amendment referred to contracts "for public works" in cities of the fifth class. Also cited in Statutes 1941, chapter 741, section 2, page 2260, where the amount was raised to $1,000, with a similar preamble in the title. It is therefore argued that when the Legislature used the term "public project" in section 37902, it meant "public work"; that since the collection of garbage is a governmental function (citing *Glass v. City of Fresno,* 17 Cal.App.2d 555, 558 [62 P.2d 765]; *Pittam v. City of Riverside,* 128 Cal.App. 57, 62 [16 P.2d 768]; 18 California Jurisprudence, page 1096, section 345; and 7 McQuillin, Municipal Corporations, 3d edition, page 77, section 24.242) one can assume that to perform such function constitutes the doing of work, and that the doing of that governmental work, being for a public purpose, it is, as a matter of fact and law, "a public work." In this connection plaintiff cites *McKim v.* ***676** *Village of South Orange,* 133 N.J.L. 470 [44 A.2d 784, 786]; and *State v. Butler,* 178 Mo. 272 [77 S.W. 560], and relies on these out of state cases for the proposition that a contract for the removal of the city's garbage is a "public work" under the statutes there involved. He also cites 35 Words and Phrases, 435; 43 American Jurisprudence, page 744, section 3; 92 American Law Reports, 837; and 50 Corpus Juris, page 867, section 97. Therein, the above-mentioned cases are cited as authority for this statement.

Statutes of 1949, chapter 79, section 1, page 165, codifies section 777, *supra,* into the present code sections above indicated. Therein, the words "public work" are no longer mentioned. The term "public project" is used in all instances and the new section clearly defines this term. This definition is not inconsistent with the provisions of the original act or the amendments thereto. The better argument would be that the Legislature intended to remove any doubt as to the meaning of the previous enactments on the subject and intended to exclude from that definition a contract for the disposal of garbage.

Lelande v. Lowery, 26 Cal.2d 224, 227 [157 P.2d 639, 175 A.L.R. 1109], relied upon by plaintiff, is not opposed to this construction. Under article XI, section 11 of the California Constitution, "Any ... city ... may make and enforce within its limits all such local, police, sanitary, and other regulations as are not in conflict with general laws." Section 38793 of the Government Code provides:

"In addition to other powers, the legislative body of a fifth class City may provide for the prevention and summary removal of all filth and garbage in the city."

Section 4250 of the Health and Safety Code provides:

"The legislative body of any incorporated city may contract for the collection or disposal, or both, of garbage, ... under such terms and conditions as may be prescribed by the legislative body of any such city by a resolution or ordinance."

The accumulation of garbage and trash within a city is deleterious to public health and safety. (,) The collection and disposal of garbage and trash by the city constitutes a valid exercise of police power and a governmental function which the city may exercise in all reasonable ways to guard the public health. () It may elect to collect and dispose of the garbage itself or it may grant exclusive collection and disposal privileges to one or more persons by contract, or it may permit private collectors to make private contracts with private citizens. ***677** The gathering of garbage and trash is considered to be a matter which public agencies are authorized to pursue by the best means in their possession to protect the public health. (*In re Santos,* 88 Cal.App. 691 [264 P. 281]; *Miller v. City of Palo Alto,* 208 Cal. 74 [280 P. 108]; *Manning v. City of Pasadena,* 58 Cal.App. 666 [209 P. 253].)

() In the absence of some specific charter or statutory requirement, municipal contracts need not be let under competitive bidding. (McQuillin, Municipal Corporations, 3d ed., vol. 10, p. 272, § 29.31.) The only statutory requirement in California brought to our attention pertaining to competitive bidding on contracts by a city of the fifth class consists of the provisions of the Government Code mentioned. () It is obvious from the mere reading of these sections that not all public contracts are included, but only those which constitute "public projects" as that term is therein defined and limited. This point is well illustrated in the case of *Electric Light & Power Co. v. City of San Bernardino,* 100 Cal. 348 [34 P. 819], where the city, without following any competitive bidding procedure, entered into a contract with the plaintiff light company wherein the light company agreed to install and furnish street lighting to the city for one year at a cost of over $500. The question involved was the construction to be placed upon section 777, *supra,* which section then required competitive bidding

procedure where the expenditure was to exceed $100 "In the erection, improvement and repair of all public buildings and works, in all street and sewer work, and in all work ... in or about embankments or other works for protection against overflow, and in furnishing any supplies or materials for the same. ..." The Supreme Court, in construing this section, held that the contract in question was not within the statute and that competitive bidding was not required. It said, at pages 351-352:

"Does the lighting of streets as here described come with the term 'street work', as used in the foregoing provision of the statute? ... The provision fairly construed by all rules of construction does not bring the subject of this litigation within the term 'street work'. ...

"There can be no question as to the sound policy of a law requiring municipal corporations to enter into contracts, for the payment of money, only after full notice and opportunity for competition; but that is not a matter for our consideration here. We must take the statute as we find it. We can neither ***678** add to it nor subtract from it. It is our duty alone to construe it as it stands enacted."

In *Swanton v. Corby,* 38 Cal.App.2d 227 [100 P.2d 1077], a sixth class city, without any competitive bidding procedure, purchased materials, labor and supplies in the open market and had constructed for the city a two-way short wave radio. The complete cost was over $900. The statute then in effect required competitive bidding procedure by sixth class cities where the expenditure exceeded $500 "In the erection, improvement and repair of all public buildings and works. ..." The question on which that case turned was the construction of the phrase quoted. This court held that the erection of the radio did not constitute a public work within the meaning of the statute, and said that:

"It is well settled in California that a municipality may purchase supplies and materials and hire labor without advertising for bids if the law or charter under which it is organized and exists does not require the contract for such supplies, materials or labor to be let to the lowest bidder after advertising for bids." (Citing cases.) See, also, 22 Cal.Jur. p. 74, § 2; and *Matthews v. Town of Livermore,* 156 Cal. 294 [104 P. 303].

As pointed out by the trial judge, this attack is made purely on the question of the procedure followed, and there is no allegation of fraud or dishonesty. The question of the wisdom or discretion of the city council in awarding the contract without accepting bids is not before the court. () In the absence of some legislative authority indicating that such a contract as here involved comes within the definition of a "public project," the courts are powerless to include it therein, no matter how reasonable plaintiff's argument of justification may seem.

() The second question is whether ordinance No. 1296 was applicable under the facts pleaded and established. It is defendant's contention, in this respect, first, that from a mere reading of the contract here in controversy and as pleaded by plaintiff, it shows on its face that the garbage and trash collection equipment was not surplus property within the intended meaning of the ordinance; second, that the city council, which was the ultimate judge of the fact whether the equipment was or was not surplus, did not consider it to be such; and third, that since the pleadings do not allege fraud or abuse of discretion in connection with said determination, the courts are powerless to disturb such determination by that body. There is merit to the argument. Under the terms of ***679** the ordinance in question only *surplus property* need be sold at public auction. The ordinance itself defines surplus property as property for which the city has no present or *prospective use.* As will be noted, the city council is not precluded by the ordinance from selling or disposing of *any* of its personal property without obtaining bids therefor. The provision applies only to surplus property for which the city has no present or prospective use. () The city council was the ultimate judge, both under the ordinance and under the statute authorizing the sale of its personal property without bid, to determine whether said property was or was not surplus and whether a sale made by it under either theory was or was not for the common benefit of the city. Such authority cannot be delegated to any other municipal officer. (19 R.C.L. p. 896, § 195, 37 Am.Jur. p. 667, § 53; *Bolton v. Gilleran,* 105 Cal. 244 [38 P. 881, 45 Am.St.Rep. 33]; *Truckee & T. T. Road Co. v. Campbell,* 44 Cal. 89, 91.)

() The record conclusively shows that the sale was made without resort to bid, and the equipment was never declared to be surplus property by the head of any department or by the city council. The presumption is that the city council made a determination that it was not surplus; that it should be sold; and that the contemplated sale was for the benefit of the city. (*Truckee & T. T. Road*

Co. v. Campbell, supra; Code Civ. Proc., § 1963, subds. 15 and 33.)

In *Southlands Company v. City of San Diego,* 211 Cal. 646 [297 P. 521], our Supreme Court held that where the city council had the power to exercise a discretion as to whether the building of a bridge or causeway was reasonably necessary in the construction of a highway, in the absence of fraud, its finding that such a bridge was necessary was conclusive and not subject to review. (See, also, *In re Sumida,* 177 Cal. 388 [170 P. 823]; *Odd Fellows' Cemetery Assn. v. San Francisco,* 140 Cal. 226 [73 P. 987].) The discretionary powers of municipal authorities will not be interfered with in a suit by a taxpayer for an injunction in the absence of fraud or palpable abuse. Matters in which questions as to judgment, wisdom or policy alone are involved are not subject to control by injunction. (64 C.J.S. p. 958, § 2142; 64 C.J.S. p. 969, § 2147c.)

California Reduction Co. v. Sanitary Reduction Works of San Francisco, 126 F. 29, involved a suit in equity by a third party (as here) to obtain an injunction against defendant company testing the validity of an exclusive contract ***680** for the removal of garbage in the city of San Francisco, for a period of 50 years. The court held that since the Consolidation Act (Stats. 1863, p. 540, chap. 352) empowered the board of supervisors "by regulation or order" to provide for the prevention and summary removal of all nuisances, etc. the board, having power under such provisions, to itself regulate the removal and disposition of all garbage and refuse matter, the municipality had the power to contract with others for such removal or disposition, and that an order granting an exclusive franchise or privilege to a person to receive and destroy the garbage and refuse collected in the city for a term of 50 years was within the authority granted, as well as within the police power of the state. It then held that the validity of the grant of such privilege, which amounts to a contract, and under which the grantee is acting, cannot be collaterally attacked by a private party in a suit in equity on the ground of *irregularity* in the exercise of its power by the municipality, nor because of the alleged failure of the grantee to perform the conditions imposed, the nonperformance of which it was provided would work a forfeiture, such matters being determined only at suit of the granting authority. Although defendants do not raise the point on this appeal, an action to test the question as to whether a city council errs in exercising its rightful authority in awarding an exclusive franchise for the removal of garbage must be by quo warranto. (*Gurtz v. City of San Bruno,* 8 Cal.App.2d 399 [48 P.2d 142].) Continuing further, the court, in the California Reduction Company case, then said, at page 38:

"The question as to the reasonableness of granting the exclusive franchise for 50 years is one upon which there may be honest differences of opinion. Courts cannot, in the determination of this question, run a race of opinion upon points of reason and expediency with the law-making power. No iron- clad rule can be laid down to determine where the discretion of the board ceases and where the power and authority of the court to declare the action of the board unreasonable begins. The border line must be ascertained by the facts, conditions, and circumstances surrounding the subject-matter in every particular case. ... It was authorized by the laws of the state to make the contract in question. It was required to act with sound discretion as to the methods and terms. With the honest and reasonable exercise of this authority a court has no right to interfere, although the ***681** board may not have chosen the best method or made the most advantageous contract in relation to the subject-matter. It is only in cases where it clearly appears that the board has exceeded its authority, or acted arbitrarily, oppressively, and unjustly in the exercise of its discretion, that a court is called upon to act."

() In the instant case it appears that the contract carried a cancellation clause permitting the city to cancel the contract by giving 30 days' written notice if the service was not satisfactory. It was entered into in November, 1950, at which time the existing conflict with Korea and Red China was in progress. The city council might well have recognized that a shortage of critical materials, such as specialized garbage and trash equipment existed, and that if it did not provide for a means of collecting garbage itself in case the service should prove to be unsatisfactory and the contract was cancelled, it would be derelict in its duty. It clearly appears from the agreement itself that there might well have been a prospective use for the equipment by the city. Under such circumstances the city council was justified in not classifying it as surplus.

Defendants present the additional argument that the city council could not, by ordinance, limit, restrict, nor otherwise divest itself of the discretionary power vested in it by the general law to dispose of city-owned

property. McQuillin, Municipal Corporations, volume 10, 3d edition, § 29.37, page 284, recites:

"Where the statutes governing a municipality do not require that its contracts be let under competitive bidding but the manner of awarding them is left to the discretion of the mayor and council, it is held that such officials cannot restrict their future conduct nor limit the discretion vested in them by passing an ordinance requiring competitive bidding for subsequent contracts. Such ordinance will not prevent them from contracting in good faith in the future in some other manner." (Citing cases.)

However, in connection with this statement there is a statement which reads:

"While there is authority which apparently points to a contrary conclusion, it has frequently been held that although neither charter nor applicable statute prescribes competitive bidding, or a method for letting contracts, an ordinance providing for such bidding must be observed, otherwise ***682** the contract cannot be enforced against the municipality."

Several Missouri and Pennsylvania cases are cited in support of this latter rule. (See *Kirksville v. Harrington,* 225 Mo.App. 309 [35 S.W.2d 614]; *Flynn v. Philadelphia,* 258 Pa. 355 [102 A. 24]; *Bunker v. City of Hutchison,* 74 Kan. 651 [87 P. 884]; and *Cimarron Utilities Co. v. Guymon,* 171 Okla. 344 [43 P.2d 143].)

Plaintiff concedes under the general rule that the city council was given power to purchase and sell personal property, but argues that any such sale must be for the "benefit of the City" and that since the city council attempted to set up a standard procedure or policy relating to the selling of its property by ordinance, it was bound to follow that procedure. In this connection it is also argued that ordinances passed by a city council, within the scope of its authority, have the same force and effect within the limits of the city as a statute has throughout the state, citing *Wheeler v. Gregg,* 90 Cal.App.2d 348, 370 [203 P.2d 37]; *Monterey Club v. Superior Court,* 48 Cal.App.2d 131, 137 [119 P.2d 349]; and *Marculescu v. City Planning Com.,* 7 Cal.App.2d 371, 373 [46 P.2d 308].

It is also contended by plaintiff that in executing the contract pertaining to the sale of the equipment, the city council was acting in an *administrative* capacity; that when it adopted the ordinance, it was acting in a *legislative* capacity; that when acting in an administrative capacity, the city council was bound by those ordinances passed when acting in a legislative capacity and must conform to the procedure outlined therein. There is authority for this latter statement in *Hopping v. City Council of the City of Richmond,* 170 Cal. 605, 615 [150 P. 977]; *Earl v. Bowen,* 146 Cal. 754, 761 [81 P. 133]; and *Strauch v. San Mateo Junior College Dist.,* 104 Cal.App. 462, 464 [286 P. 173].

There is neither pleading nor showing made by the plaintiff that the actions of the city council were not made "for the benefit of the City."

() As distinguished from a charter city, the general basic law of a fifth class city is to be found in the Constitution and in the laws and codes adopted by the state Legislature. Government Code, sections 37350, 37351, provide that:

"A city may purchase ... real and personal property and control and dispose of it for the common benefit," and "The legislative body may purchase ... such personal property ***683** ... as is necessary or proper for municipal purposes. It may control, dispose of, and convey such property for the benefit of the city. ..."

It therefore appears that the legislative body of the city is vested with the free and unrestricted discretionary power to determine what personal property shall be disposed of, and when and how that disposition shall be made. The only restriction imposed by the general basic law is that such disposition shall be for the benefit of the city and its constituents. The basic law does not require the city to follow competitive bidding procedure. It does not require the city council to establish any rules, regulations or procedure for the disposal of personal property as a condition precedent to the exercise of the power of disposal.

While it may appear that there are several California cases affirming the rule that the city council cannot, by adopting an ordinance, divest itself of, or restrict itself in, the free exercise of the broad discretionary power and duty which the general basic law has imposed upon and delegated to the city council (*Briare v. Matthews,* 202 Cal. 1 [258 P. 939]; *Higgins v. Cole,* 100 Cal. 260 [34 P. 678]; and *Thompson v. Board of Trustees,* 144 Cal. 281 [77 P. 951]) yet some exception seems to be indicated when such ordinance applies to acts which may be classified

as administrative functions. (See 18 Cal.Jur. p. 893, §§ 188-189, and cases cited.) Since we have concluded that the city council was within its rights in disposing of the trucks and equipment under the first theory, it becomes unnecessary to determine this last question.

() It should be kept in mind that we are here dealing with a contract for the collection and disposal of garbage of a city. The city council has the responsibility of protecting the health of the inhabitants of the city by collecting and disposing of such garbage, either with its own equipment or by letting contracts for that purpose. The agreement for the conditional sale of the equipment to the defendants Johnson was a part of the consideration of the contract and was an integral part of the agreement for, in all probability, without the use of the equipment, the Johnsons would have been unable to obtain other equipment or perform their agreement. To subject such specialized equipment to a forced sale, to the highest bidder, for cash, may well have defeated the purpose of the agreement, and may have created a serious ***684** unhealthy condition in the city. We conclude that in the absence of some pleading or showing of fraud or that the city council exceeded its authority, acted arbitrarily, oppressively and unjustly in the exercise of its discretion, the courts should not interfere with the discretionary power vested in the city council in this respect.

Plaintiff next contends that since the prayer of the complaint also seeks declaratory relief, based on the same allegations heretofore mentioned, the court erred in its ruling ordering judgment for defendants on the pleadings. He cites such cases as *Essick v. City of Los Angeles,* 34 Cal. 2d 614, 624 [213 P.2d 492]; and *Maguire v. Hibernia Sav. & Loan Society,* 23 Cal.2d 719, 728 [146 P.2d 673, 151 A.L.R. 1062].

() It is true that a complaint for declaratory relief is legally sufficient if it sets forth facts showing the existence of an actual controversy relating to the legal rights and duties of the respective parties under a written instrument and requests that these rights and duties be adjudged by the court. (*Maguire v. Hibernia Sav. & Loan Society, supra.*) However, the pleadings must set forth facts which show an actual controversy. () Under the statement of facts here presented the only controversy claimed is whether the contract for the handling of garbage was void because bids were not called for, and whether the conditional agreement to sell the equipment was void because such sale was not made at public auction. These questions were fully presented by the pleadings and plaintiff has suffered an adverse ruling on these subjects. He is not prejudiced by the ruling of the trial court which, in effect, denies declaratory relief. No abuse of discretion appears in the action of the court in refusing to entertain such complaint. (*Orloff v. Metropolitan Trust Co.,* 17 Cal.2d 484, 489 [110 P.2d 396]; *Ermolieff v. R.K.O. Radio Pictures,* 19 Cal.2d 543, 549 [122 P.2d 3]; *Chas. L. Harney, Inc. v. Contractors' State License Board,* (Cal.App.) * 238 P.2d 637; 16 Am.Jur. p. 288, § 14; Code Civ. Proc., § 1061; *City of Alturas v. Gloster,* 16 Cal.2d 46, 48 [104 P.2d 810].)

Complaint is made that the court's ruling on the demurrer that the complaint stated a cause of action was inconsistent with its ruling granting a judgment on the pleadings. () When a general demurrer is incorrectly overruled and this fact is called to the attention of the trial court by presentation of additional authorities, as was done here, the court ***685** is authorized to grant a judgment on the pleadings, if proper. In such case the ruling on the demurrer may be deemed an irregularity. (*Electric Light & Power Co. v. City of San Bernardino,* 100 Cal. 348 [34 P. 819]; *De Courcey v. Cox,* 94 Cal. 665 [30 P. 95]; 21 Cal.Jur. 241, § 166.)

The final complaint is that the court committed prejudicial error in granting a judgment on the pleadings when the motion before the court was for a "judgment of nonsuit" under "Section 581 C. C. P." because "the plaintiff has not sufficiently proved his case." The court endeavored to account for this discrepancy upon the theory that defendants erroneously denominated the motion a motion for nonsuit. The language of the motion does not so indicate. The only question is whether plaintiff suffered prejudicial error by the judgment entered.

(,) A motion by defendant for judgment on the pleadings operates as a general demurrer to the complaint, and the averments of the complaint, for the purpose of the motion, must be treated as true, and the motion should be granted where no material issue is joined which it is necessary to prove. (21 Cal.Jur. 234, § 163.) A motion for nonsuit should be made as provided in section 581, Code of Civil Procedure, and if granted, such judgment operates as an adjudication upon the merits unless the court, in its order for judgment, otherwise specifies.

(,) The city engineer testified that actually, 13 trucks were transferred to the Johnsons under the contract; that after the letting of the contract the sanitary department, he "imagined ... would have no use for them" except for two or three that might be used for "stand-by purposes"; and that if the contract with the Johnsons were terminated, the city would have immediate need for the trucks. Thereafter, the court sustained an objection to an offer of plaintiff to prove that the city would suffer damage by the sale of the trucks to the Johnsons because they could have been sold for more if sold at public auction to the highest bidder. Thereafter, plaintiff rested his case. A motion to strike all of the evidence was granted upon the ground that the complaint did not state facts sufficient to constitute a cause of action. The motion for nonsuit followed. The judgment on the pleadings was ordered. For the reasons stated, the motion to strike the testimony was proper since there was no allegation of fraud in connection with the transaction, and for the further reason that there was no showing that the city council acted illegally, ***686** arbitrarily, or that it abused the discretionary power with which it was vested.

If the judgment, as entered, may be considered as a ruling on the motion for nonsuit it did, in effect, operate as an order granting a dismissal of plaintiff's complaint, and since it did not otherwise specify, it operated as an adjudication upon the merits. The same result would have obtained had the motion been for a judgment on the pleadings. This court might well have ordered that the trial court enter a judgment on the pleadings. (*Electric Light & Power Co. v. City of San Bernardino, supra.*) We conclude that plaintiff was not prejudicially injured by the irregularity mentioned.

Judgment affirmed.

Barnard, P. J., and Mussell, J., concurred.

Appellant's petition for a hearing by the Supreme Court was denied March 13, 1952. Schauer, J., was of the opinion that the petition should be granted.

Footnotes

* A hearing was granted by the Supreme Court on February 7, 1952.

101 Cal.App. 769, 282 P. 820

ABRAM C. DENMAN, Jr., Appellant,
v.
CITY OF PASADENA et al., Respondents.

Civ. No. 7111.
District Court of Appeal, First District, Division 2, California.
November 14, 1929.

HEADNOTES

(1)
APPEAL--PLEADING--AMENDMENTS--DISCRETION.
When an appeal is from a judgment following an order sustaining a demurrer without leave to amend, and the appellant urges as one of his grounds that the trial court abused its discretion in denying leave to amend, it is incumbent on the appellant to show error in that regard.

(2)
NEGLIGENCE--COLLAPSE OF GRANDSTAND--PERSONAL INJURIES--LIABILITY FOR--PLEADING.
A person suffering personal injuries from the collapse of a temporary wooden grandstand erected by a private individual upon private property cannot hold an association, its officers and members liable for such injuries upon the theory that it staged a festival in a city, invited people to the festival, and conducted a parade in said city which was viewed by people occupying grandstands, where his complaint also shows that said association had nothing to do with the use of the private property upon which the particular grandstand was erected or with the construction, maintenance or operation of said grandstand, and that it had no supervision over the sale of seats in the grandstand, no direction or control over the number of people permitted to occupy it, and no participation in the profits from seat sales.

(3)
ID.--PROXIMATE CAUSE.
If injury has resulted in consequence of a certain unlawful act or omission, but only through or by means of some intervening cause, and from which last cause the injury followed as a direct and immediate consequence, the law will refer the damage to the last or proximate cause, and refuse to trace it to that which was more remote.

See 19 **Cal. Jur.** 568; 22 **R. C. L.** 134.

(4)
ID.--ESTABLISHED MODE OF CONDUCT.
When through a long period of years a particular mode of conduct has been followed as the proper and reasonable mode for a prudent man to follow under particular circumstances one cannot be charged with negligence in following that mode of conduct alone.

See 19 **Cal. Jur.** 582; 20 **R. C. L.** 27.

(5)
ID.--PLEADING.
In such a case, the allegation in plaintiff's complaint that such association, its officers and members knew "or should have known" that the particular grandstand was unsafe is not sufficient to attach a liability for his injuries on said parties, where, aside from inconsistencies in the allegation itself, specific facts are pleaded that the grandstand was erected, maintained and controlled by a private individual on private property for "his own pecuniary benefit and profit."

(6)
ID.--CONCLUSIONS--SPECIAL FACTS--PLEADING.
Where a conclusion is alleged and also the special facts from which the conclusion is drawn, if the special facts are inconsistent with and do not support the conclusion, the former control, and the sufficiency of the complaint is to be determined from the special facts pleaded.

See 21 **Cal. Jur.** 50.

(7)
ID.--PLEADING.
In such a case, the allegation in plaintiff's complaint that "the said defendants" *caused* the grandstand to be constructed and to remain in a dangerous condition is insufficient in charging liability against the association, its officers and members, where such allegation follows the paragraphs which are definitely tied down to the city and

its officers, and the expression "said defendants" has no reference to said association, its officers or members, and the allegation is in direct conflict with the pleading that a private individual "caused" the particular grandstand to be erected "for his own pecuniary benefit and profit and had the right and authority to control the construction, use and seating capacity thereof."

(8)
ID.--MUNICIPAL CORPORATIONS--GOVERNMENTAL FUNCTIONS--LIABILITY OF OFFICERS AND EMPLOYEES.
The granting of a permit to construct a grandstand on private property and the supervision and inspection of its construction is a governmental function, and a municipality is not liable for the carelessness of its officers or employees under such conditions.

See 18 **Cal. Jur.** 1094.

(9)
ID.--LIABILITY OF CITY FOR INJURY--PLEADING.
In such a case, the allegation that the city in permitting the association to conduct its parade along the public streets indirectly invited the pedestrians to purchase seats in the grandstand the better to view the spectacle, and that the parade was the inducement for the spectators to purchase tickets for a football game, in the sale of which tickets the city had a direct financial interest, is insufficient to charge the city with any liability for plaintiff's injuries, where the positive allegations of the complaint negative the idea that the city had some part in the construction and use of the grandstand.

(10)
ID.--PARTIES--APPEAL.
In such a case, where there is not a word in plaintiff's briefs defending his action in joining city officials and employees as parties defendant, and the complaint does not pretend to state any cause of action against them, the point will be treated as having been abandoned because the duty is on plaintiff (the appellant) to show that error has been committed.

SUMMARY

APPEAL from a judgment of the Superior Court of Los Angeles County. Ruben S. Schmidt, Judge. Affirmed.

The facts are stated in the opinion of the court.

COUNSEL
Bertrand J. Wellman, Geo. W. Padgham and A. G. Alm for Appellant.
Harry M. Ticknor, Roland Maxwell, John Perry Wood and Paul Sandmeyer for Respondents Tournament of Roses Association.
R. C. McAllaster and Harold P. Huls, City Attorneys, for Respondent City of Pasadena.

NOURSE, J.

The plaintiff sued for damages for personal injuries resulting from the collapse of a temporary wooden "grandstand" erected for the convenience of spectators at festivities known as the "Tournament of Roses," held in the City of Pasadena. Demurrers to the complaint were sustained without leave to amend. A motion for leave to amend was later denied and judgment was entered for the defendants. The plaintiff has appealed from the judgment upon a typewritten transcript.

The plaintiff sued the City of Pasadena, its "Board of Directors," the city manager, chief of police and the chief inspector; the Tournament of Roses Association, a corporation, its directors, and all members of the association; Paul F. Mahoney, who constructed the grandstand under permit of the city authorities, and E. H. Lockwood, the owner of the land upon which the grandstand was erected and maintained. The defendant city officials (other than the chief inspector) joined with the City of Pasadena in a demurrer to the complaint. The directors and members of the Tournament of Roses Association joined with the corporation in a demurrer to the complaint. The other defendants named in the complaint do not appear to have been served with process and are out of the case so far as this appeal is concerned. ***772**

The two demurrers mentioned came on for hearing at the same time and both were sustained without leave to amend. The plaintiff then moved for leave to file an amended complaint and this motion was denied. The respondents argue that on this appeal we may not consider the substance of the proposed amended complaint because the appellant has failed to follow the settled rule of section

953c of the Code of Civil Procedure, requiring the printing of such portions of the typewritten record as are desired to be called to the attention of the court.

[1] When the appeal is from a judgment following an order sustaining a demurrer without leave to amend, and the appellant urges as one of his grounds that the trial court abused its discretion in denying leave to amend, it is incumbent on the appellant to show error in that regard. Here the appellant, without claiming or making any showing of an abuse of discretion, merely argues that the trial court "should have" granted leave to amend. But with no record to support the argument we cannot say that error was committed. (*Stewart v. Douglass*, 148 Cal. 511, 512 [83 Pac. 699]; *Philbrook v. Randall*, 195 Cal. 95, 104 [231 Pac. 739]; *Duvall v. White*, 46 Cal. App. 305, 307 [189 Pac. 324]; *Farber v. Greenberg*, 98 Cal. App. 675 [277 Pac. 534, 538].)

But aside from the absence of affirmative evidence of error in this respect we are unable to perceive how the appellant could amend his complaint to state a cause of action against any of these respondents if the facts alleged in his complaint be true. This seems to be conceded by the appellant in his reply brief, wherein he states that the proposed amended complaint was no different than the original "except as to a more correct statement therein of the defendant City's financial interests." Thus as to all defendants other than the City of Pasadena the issues here are confined to the propriety of the order sustaining their demurrer to the original complaint. The virtue of the proposed amendment as to the city alone can be considered more logically in the discussion of the pleadings in relation to that defendant.

[2] The demurrer of the Tournament of Roses Association, and of the members thereof, who joined with the corporation, was properly sustained without leave to amend. The complaint plainly fails to state a cause of action against ***773** any of them, and, assuming, as we must do, that the facts alleged therein are true, no cause could be pleaded by amendment. The facts alleged are that the grandstand was erected by a private individual upon private property with the consent of the property owner. The Tournament Association had nothing to do with the use of this private property, nor with the construction, maintenance or operation of the grandstand. It had no supervision over the sale of seats in the grandstand, no direction or control over the number of people permitted to occupy it, and no participation in the profits from seat sales.

Briefly, the appellant sought to fix liability for his injuries on these respondents by the allegations that they had staged the tournament festival; that through their efforts a large number of people were invited to and did come into the city to view the spectacle and to attend a football contest which was conducted in a stadium constructed by the association for that purpose; that the financial interest of these respondents in the tournament was in the large profit they received from this contest; that prior to the football game, and as an inducement to people to purchase tickets therefor, these respondents conducted a spectacular parade through certain designated streets of the city; that, by occupying the entire width of these streets for the purposes of this parade, these respondents forced and "invited" spectators to purchase tickets for seats on the viewing grandstands; and that these respondents knew or "should have known" that this particular grandstand was dangerous, a public nuisance, and a menace to the lives and safety of those who occupied it.

Aside from the allegations of knowledge, or means of knowledge, of the unsafe condition of this particular grandstand, every other allegation of the complaint relating to these respondents pleads this and nothing more-a situation whereby these respondents made it possible for the appellant to put himself in a position in which, wholly through the act of another, he was injured. Thus the complaint merely pleads facts which would tend to charge these respondents with the remote cause of appellant's injuries while also pleading facts which show beyond doubt that another's acts were the sole proximate cause of such injuries. **[3]** The rule is settled that "if injury has resulted in consequence ***774** of a certain unlawful act or omission, but only through or by means of some intervening cause, from which last cause the injury followed as a direct and immediate consequence, the law will refer the damage to the last or proximate cause, and refuse to trace it to that which was more remote." (Cooley on Torts, 2d ed., p. 73, quoted in *Trice v. Southern Pacific Co.*, 174 Cal. 89, 96 [161 Pac. 1144].) The reason for such a rule is well illustrated by the efforts of appellant to attach liability upon these respondents. Their "act of negligence" was in inviting a large concourse of people into the city and in leading a parade along a city street in front of the lot on which this grandstand was erected. But if, without having any supervision or control over the grandstand,

they are to be held responsible for any injuries caused by the negligence of the owners thereof they would likewise be liable for all injuries arising out of the negligence of all railroads and other public conveyances bringing people into the city on this same "invitation." Likewise, it is possible that people stood upon the housetops of private dwellings and that many hung out of private windows to see the spectacle. Some boys might have climbed trees or telephone poles to get a better view. Would there be any reason in a contention that these respondents would be liable for injuries resulting under such circumstances? In *Wright v. City of Pasadena*, 37 Fed. (2d) 902 (U. S. Dist. Court, Aug. 19, 1929), Judge McCormick, in sustaining a demurrer to a complaint identical with the proposed amendment filed herein, held that it failed to allege any act or acts of the association which operated to cause the injuries complained of as a proximate cause, and that "it appears to the court that every merchant of Pasadena who financially contributed to the success of the Tournament of Roses and every property owner thereof who shared in the emoluments of such event would be liable to plaintiff for damages if the theory of liability as set forth in the amended complaint were tenable." We might add what is a matter of common knowledge, that public fairs, festivals and celebrations have been held in this country since the days of the first Indian war dance. That many of these affairs have been conducted for profit while many (as the complaint alleges was the case here) have been conducted to advertise or "boost" a particular locality. ***775** Likewise, football games have been held for the financial profit of the management and as a means of education and training of the participants, and these have attracted large crowds of people. It is also a matter of common knowledge that in many of these events accidents have occurred to the guests while either going to or returning from the place of amusement. If those managing such events are legally liable for personal injuries to their guests which are received on private property over which the management has no control, and which are the result of the negligence of private individuals over whom the management has no supervision or control, we would expect to find some judicial expression recognizing such liability. As appellant has failed to cite any decision in support of his theory, and as we have found none, we may assume that the point should be decided on the general principle that liability rests on negligence, that negligence is "the want of such care as a person of ordinary prudence would exercise under the circumstances of the case" (19 Cal. Jur., p. 548); and that a person of ordinary prudence under these circumstances would not assume the burden of controlling the activities of every property owner in the locality, nor would he hold himself out as an insurer of the safety of all visitors while engaged in their private amusements. **[4]** Therefore, when through a long period of years a particular mode of conduct has been followed as the proper and reasonable mode for a prudent man to follow under particular circumstances one cannot be charged with negligence in following that mode of conduct alone. The proper conduct of "a person of ordinary prudence" may thus be established by long approved practice and custom and this becomes just as potent as a standard of conduct prescribed by law. Manifestly a complaint which merely alleges that a defendant had done the very acts which the law prescribes he must do under the circumstances fails therein to charge negligence on his part. And since "the test of negligence with respect to instrumentalities, methods, etc., is the ordinary usage and custom of mankind" (20 R. C. L., p. 27), a complaint which discloses that the parties merely followed such recognized usage and custom and which does not plead any departure therefrom or any other act or omission which a prudent person would not have done or omitted under the same circumstances does ***776** not state a cause of action for negligence. The rule of law is succinctly stated in *Tallman v. Nelson*, 141 Mo. App. 478, [125 S. W. 1181, 1183], as follows: "If one does what the great body of other prudent men do, in a like situation, he is not negligent." And in *Brands v. St. Louis Car Co.*, 213 Mo. 698 [18 L. R. A. (N. S.) 701, 112 S. W. 511, 514], it is said: "No jury can be permitted to say that the usual and ordinary way commonly adopted by those in the same business is a negligent way for which liability shall be imposed."

[5] But it is argued that as these respondents knew "or should have known" that this particular grandstand was unsafe they come within the rule of *Indianapolis St. Car Co. v. Dawson*, 31 Ind. App. 605 [68 N. E. 909]. In that case the street-car company was held liable for injuries to a colored man and woman whom they had conveyed to a park where they were assaulted by whites. Liability was attached to the car company because it knew that there was an intense feeling against colored people at the park, but failed to impart this information to its passengers. This rule simply goes back to the general principles which we have been discussing. An ordinarily prudent person would not invite, urge or carry another into a known place of danger without warning. But the difficulty with the complaint in this respect is that it is so inconsistent

and contradictory in its allegations that it does not come within the rule. To say that the defendant knew this grandstand was unsafe is more or less a conclusion of the pleader; but to say in the same sentence that he "should have known" it is to say that he did not know. Further inconsistencies appear from the allegations of specific facts which contradict this general allegation of knowledge. Thus it is alleged that this grandstand was erected, maintained and controlled by a private individual on private property for "his own pecuniary benefit and profit," pursuant to license therefor by the municipal government, and subjected to inspection as to its safety by the proper public officials. To plead generally in face of these specific facts that these respondents should have known that this grandstand was unsafe compels us to presume, contrary to the legal presumptions found in the code, that these public duties were not performed and that the public officials were guilty of fraud. **[6]** But "where a ***777** conclusion is alleged and also the special facts from which the conclusion is drawn, if the special facts are inconsistent with and do not support the conclusion, the former control, and the sufficiency of the complaint is to be determined from the special facts pleaded." (*Little v. Union Oil Co. of Cal.*, 73 Cal. App. 612, 619 [238 Pac. 1066, 1068], where many cases are cited.)

[7] It is argued that the averment that "the said defendants" *caused* the grandstand to be constructed and to remain in a dangerous condition is broad enough to include the Tournament Association, its officers and members. But this allegation follows the paragraphs which are definitely tied down to the City of Pasadena and its officers, and the expression "said defendants" has no reference to the association, its officers or members. Furthermore, this general averment is in direct conflict with the pleading that the defendant Lockwood "caused" this particular grandstand to be erected "for his own pecuniary benefit and profit and had the right and authority to control the construction, use and seating capacity thereof." Here again the averment of specific facts must control over the general conclusions of the pleader. Taking these allegations together it is apparent that the pleader means that the association by staging the festival and inviting guests to witness the parade offered an inducement to Lockwood to obtain pecuniary profit by constructing the grandstand, but that the latter did this for his own benefit and had sole supervision and control over it. Here again these respondents are merely charged with the remote cause of the injury to appellant while the proximate cause is definitely laid to others over whom these respondents had no control.

Appellant cites a large number of cases, generally referred to in the briefs as the "Bathing Beach," and "Amusement Park" cases, holding that those conducting such places of amusement are liable for injuries to patrons on the premises. Some of these cases hold that the owner is liable where the injury is the result of the negligence of a concessionaire. It would serve no purpose to refer to these cases other than to say that without exception they place liability on the party who had the supervision and control of the premises and upon whom rested the legal duty to keep the premises in a safe condition. Thus, in *Johnstone v. Panama-Pacific* ***778** *I. E. Co.*, 187 Cal. 323, 329 [202 Pac. 34, 36], it is said "there was a duty imposed upon respondent (Exposition Company) to use ordinary care to keep *its grounds*, including the thoroughfare, in a safe condition for its invitees." In that case the exposition company had granted a concession to another to rent electric vehicles to visitors to be operated by the party renting them throughout the exposition grounds. The plaintiff, while walking along one of the paths maintained in the grounds by the exposition company for pedestrians, was injured by being struck by another visitor while operating one of these electric vehicles. The ruling followed the great weight of authority-that the owner was responsible for the premises under its control. This rule is clearly stated in *Thornton v. Maine State Agr. Soc.*, 97 Me. 108 [94 Am. St. Rep. 488, 493, 53 Atl. 979, 981], where it was said: "Therefore, having invited the public to its fair, it was the duty of the defendant to use reasonable care to keep its grounds and the usual approaches to them, so far as the approaches were under its control, in a safe condition, safe for all who were invited." The bathing beach cases follow the same principle. Even where the injury occurred in the public water of the ocean it was held that the proprietor of the beach resort was bound to exercise reasonable care for the safety of those he invited to patronize his resort. But none of the cases cited supports the theory of appellant that the owner or proprietor is liable for injuries arising beyond the premises and on private property over which another has full supervision and control.

What has been said concerning the allegations relating to the Tournament Association applies equally to its directors and members and the demurrer on their behalf was properly sustained.

The demurrer of the City of Pasadena involves a consideration of the capacity in which it was acting at the time of the injury. Appellant takes the position that the city was financially interested in the tournament and hence was acting in a proprietary capacity. The argument is that the proprietary capacity of the city is disclosed in the averments of the complaint that the city received a large annual profit from pay features of the festival, including the football game, and that the tournament parade and the football ***779** game were held "for the immediate financial benefit and profit of said defendant City of Pasadena's citizenry and tradespeople, ... and for the future and ultimate pecuniary profit of its landholding and real estate property owning class." But it is also alleged that said city issued permits for the building of grandstands to seat the guests and "supervised, inspected and approved the security, safety and carrying capacity of said grandstands." We may concede that the complaint is sufficient to charge the city with acting in a proprietary capacity in conducting the football game and other pay features of the festival, but so far the city is merely charged with the remote cause of appellant's injuries-furnishing the occasion whereby the appellant found himself in the city on the day of the injury. The proximate cause of these injuries-the collapse of the grandstand-is alleged to have been due to the city's employment of unskilled and incompetent inspectors.

[8] Manifestly the granting of a permit to construct a grandstand on private property and the supervision and inspection of its construction is a governmental function. That a municipality is not liable for the carelessness of its officers or employees under such conditions is settled by the authorities. (*Wikstrom v. City of Laramie*, 37 Wyo. 389 [262 Pac. 22, 23]; *Miller v. City of Palo Alto*, 208 Cal. 74 [280 Pac. 108].)

[9] Through the maze of inconsistencies and contradictions in the complaint the real charge against the municipality is that in permitting the Tournament Association to conduct its parade along the public streets it indirectly invited the pedestrians to purchase seats in the grandstand the better to view the spectacle. The parade is said to be the inducement for the spectators to enter the stadium and purchase tickets for the football game. In the sale of these tickets the city is said to have had a direct financial interest. The positive allegations that the grandstand which collapsed was erected and maintained for the pecuniary profit and benefit of the defendant Lockwood, who had the control over its construction and use, negatives the general innuendoes that the city had some part in the construction and use of it.

Thus, so far as the city is sought to be charged with any liability for the injuries in its proprietary capacity, the ***780** complaint pleads the most remote cause that might be imagined. If the city is liable under such conditions then the doctrine of proximate cause becomes a mere shadow. It might as well be said that one holding a ticket to this football game and injured while traveling on the public highway hundreds of miles from the place of the contest could hold the city liable because he had been induced to travel by the city's advertisement of its New Year's climate.

In answer to the city's demurrer the appellant again cites a number of "Bathing Beach" and "Amusement Park" cases. In the former the owner of the resort is held liable for injuries to his guests received while bathing in the waters adjoining the resort. The rule of these cases is that because the patrons paid for the privilege of bathing in the adjoining waters, the proprietor owed them the duty of keeping the waters reasonably safe or of providing life guards or other means of protecting the patrons from injury. The rule of the amusement park cases is stated in *Stickel v. Riverview etc. Park Co.*, 250 Ill. 452 [34 L. R. A. (N. S.) 659, 95 N. E. 445, 446], where it is said: "In amusement places where space is granted for conducting attractions ... there is unanimity of authority that the owner assumes an obligation that the devices and attractions operated by the concessioners are reasonably safe for the purposes for which the public is invited to use them." In each group of cases there is authority holding that the owner of private property is liable for injuries received on public property adjoining when the use of such public property is a necessary incident to the use of the private property. But none of the cases hold the converse of this-that the public as the owner of the public property is liable for injuries received on private property over the use of which the public had no control.

It is argued that the rose festival was a joint enterprise and that, because the city expected some profit from the football game, it must be held to have been jointly interested with Lockwood and Mahoney in this grandstand. The answer to the argument is that the specific allegations are that the city did not have any such interest. If the general allegations of the complaint are true

all "florists, hostelries, theatres, sweet shops, cafes, food venders, drink dispensers ... vacant lot owners ... and real property ***781** owning class" would be jointly interested in the enterprise because it is alleged the *festival* was held for their "immediate financial benefit and profit." But if the city were held liable for every act of negligence of its citizens under such circumstances, then it would become an insurer of the safety of the individual far beyond anything contemplated in its incorporation.

[10] As to the city officials and employees who are joined as parties defendant, the complaint does not pretend to state any cause of action against them. There is not a word in appellant's briefs defending his action in joining them and we may, therefore, treat the point as having been abandoned because the duty is on appellant to show that error has been committed. (*Etienne v. Kendall*, 202 Cal. 251, 257 [259 Pac. 752].)

The judgment as to all defendants is affirmed.

Koford, P. J., and Sturtevant, J., concurred.

A petition for a rehearing of this cause was denied by the District Court of Appeal on December 12, 1929, and a petition by appellant to have the cause heard in the Supreme Court, after judgment in the District Court of Appeal, was denied by the Supreme Court on January 13, 1930.

All the Justices concurred.

17 Cal.App.2d 555, 62 P.2d 765

WILLIAM GLASS, as Finance Commissioner, etc., Plaintiff,
v.
CITY OF FRESNO (a Municipal Corporation) et al., Respondents; THE CHURCH COMPANY (a Corporation), Appellant.

Civ. No. 10273.
District Court of Appeal, First District, Division 1, California.
November 18, 1936.

HEADNOTES

(1)
Municipal Corporations--Garbage--Collection and Disposal--Governmental Function--Public Utility.
In this proceeding to enjoin a municipality from engaging in the collection and disposal of garbage, where the city resolved that garbage collection was a governmental function and omitted to take the steps prescribed by its charter for the acquisition or operation of a public utility, and there was evidence that although it intended to collect a fee for collection of garbage, it was not going to operate the system for profit, and a city could, as a matter of law, collect garbage in the exercise of a governmental function as part of its police power to preserve public health, the claim that the work could be enjoined because it constituted a public utility and the charter provisions had not been followed could not be sustained.

Validity of statutory or municipal regulations as to garbage, note, 72 **A. L. R.** 520. See, also, 18 **Cal. Jur.** 849.

(2)
Municipal Corporations--Ordinances--Motives--Revenue.
In said proceeding, where the ordinance and resolution of the city commissioners recited that it was the city's intention to collect and dispose of garbage in its governmental capacity, and there was evidence that it was to perform the service without profit, the motives of the commissioners could not be inquired into for the purpose of showing that the service was really intended for making a profit; and the fact that the city charged a fee and that some incidental revenue would come to it did not convert the ordinance into a revenue measure.

(3)
Municipal Corporations--Parties.
In said proceeding, where it appeared that the city had in a legal manner, and in the exercise of a governmental function, undertaken the collection of garbage, the absence of a taxpayer seeking to enjoin the city from the litigation was immaterial.

SUMMARY

APPEAL from a judgment of the Superior Court of Fresno County. H. S. Shaffer, Judge Presiding. Affirmed.

The facts are stated in the opinion of the court.

COUNSEL

Lawrence W. Young for Appellant. ***556**
Claude L. Rowe for Respondents.

McNutt, J., *pro tem.*

Having become dissatisfied with, as insanitary, the collection and disposal of garbage by private enterprise, the City of Fresno decided to itself undertake the work as a governmental activity. After it had embarked upon the performance of this service suit was instituted by William Glass, as Finance Commissioner of the city, against the municipality and other defendant respondents to enjoin further work and to vacate the proceedings. The Church Company, a corporation, appellant here, as a taxpayer moved the trial court for an order setting aside the judgment, and to be made a party to the suit, and it has appealed from the order of the trial court, to the end that the judgment rendered herein may be vacated.

Fresno, as a city, operates under a charter, section 108 whereof requires that, before the city may establish, acquire or operate a public or a *quasi*-public utility, an ordinance must be enacted by the affirmative vote of four members of the commission and be submitted to the electors of the city for its affirmance. The main contention made on this appeal is that the collection and disposal of garbage by a city constitutes the acquisition and operation

of a public or a *quasi*-public utility, and that in such work the municipality is not acting in the performance of a governmental function. The city, having resolved that garbage collection was a governmental function, and not the prosecution of work by it as a public utility, omitted to take the steps prescribed by the charter in the latter behalf, but merely, by a resolution and ordinance about to be adverted to, undertook to collect garbage in its governmental capacity rather than to permit the work to be further continued by the private enterprise.

In March, 1934, the city commission adopted a resolution favoring municipal ownership of garbage disposal and directing its proper officials to take over that work at the expiration of the then existing franchise. Some months of research followed with a view of ascertaining the best method of collection and disposal of garbage. After the city had refused to purchase the records and equipment of the old concern because it regarded the price demanded excessive, it ***557** adopted Resolution No. 825 and Ordinance No. 2078 which provide, in substance; Resolution No. 825, that public health and safety require the city to exclusively handle the disposition of the garbage, and declaring the intention of the city to exclusively dispose of the same within the city limits, in its governmental capacity. It is recited that the method theretofore in operation had proved unsatisfactory and detrimental to the health and welfare of the city, in that large accumulations of garbage and rubbish had caused influx of rats and other disease carrying rodents, and that the proper sanitation of the city required that it collect and dispose of garbage. After such steps had been taken as were necessary to permit the city to dispose of garbage as a governmental enterprise-and those additional steps having been omitted which were necessary in the event such work was a utility rather than a governmental function-the City Commissioner brought suit in the superior court to halt the operations, urging, as ground of illegality, that the commission, in voting to do the work, had not secured the vote of four members thereof in the enactment of the ordinance, and that thereafter no election of the electors of said city was held to approve the collection and disposal of garbage by the city.

The argument advanced against the method pursued is, in the main, that the city had gone into this work for a profit, and hence, was not acting in its governmental capacity, but was acting as a utility, and to show that it was engaged in a profitable enterprise evidence of the receipts and disbursements of the private company was received, from which it appeared, so says the appellant, that the private concern had made 9 per cent plus upon a capital investment of $96,881.24, and that since the city had been authorized to expend, $40,000 upon its equipment, it would be profiting to the extent of some 20 per cent on its invested capital.

At the conclusion of the trial the court found: 1, that the city intended to collect a fee for collection; 2, that it was not true that the city was going to operate the system for profit; 3, that the city intended to operate the garbage collection system in its governmental capacity.

() If it appears that a municipality may, as a matter of law, collect garbage in the exercise of a governmental function, and that there was evidence before the trial court sufficient to sustain the findings above set forth, it would ***558** seem that, upon the merits, the judgment below should be sustained. It is well settled in this state that in collecting garbage, trash and similar refuse and disposing of the same a municipality exercises a governmental function. (*Pittam v. City of Riverside,* 128 Cal. App. 57 [16 Pac. (2d) 768].) "In the collection and disposal of garbage a municipal corporation exercises governmental functions." (*Miller v. City of Palo Alto,* 208 Cal. 74 [280 Pac. 108].) To the same effect is *In re Santos,* 88 Cal. App. 691 [264 Pac. 281]. It has further been held that the authority of a city to perform such work is derived from section 11 of article XI of the state Constitution. (*In re Zhizhuzza,* 147 Cal. 328 [81 Pac. 955]; *In re Pedrosian,* 124 Cal. App. 692 [13 Pac. (2d) 389].)

No citation of authority is necessary, though, of course, they are multitudinous, to establish that the collection and disposal of garbage are matters so intimately connected with the preservation of public health that the regulation thereof is the proper exercise of police power, and it would naturally follow as a corollary thereto that it would have the right to dispose of garbage itself, and it has been so held.

The ordinance pursuant to which this garbage collecting is undertaken provides that the city is to act in a governmental capacity, and, further, that, while certain fees are to be charged for the work, free collection of 60 cubic yards of rubbish monthly from its customers was provided for, which would be an extra cost to the city of not less than $10,000 a year.

The evidence in the case disclosed, through the examination of Mr. Glass, that the private company lost $29,000, more or less, the first nine months of its operation. In the franchise of the private company there was no provision for free collection of any rubbish such as is found in Ordinance No. 2078 (reporter's transcript, page 49, lines 23-26); and that the cost of the city of the free collections would be at least $10,000 a year. (Reporter's transcript, page 91, lines 1-4, and lines 13-22.) The testimony of Mr. Glass, the plaintiff, further reveals that, upon starting this work, the city would, of course, be embarking upon a new enterprise, without any customers and without buying out the operating company, that it would be starting out just as had the Fresno disposal company, its predecessor, when "they lost $29,000 ***559** in the business." (Reporter's transcript, page 194, lines 11-19.) In short, Mr. Glass testified that "financially and otherwise we will have disaster". (Reporter's transcript, page 195, lines 13-22.)

That the trial court was justified in making the findings which appellant claims are without support in the evidence seems apparent from the following considerations: It can hardly be said that the city was undertaking the collection of garbage for profit in the face of the recitals in the ordinance that it was about to do the same in its governmental capacity. It is alleged in the answer as well that the city intended to collect "and dispose of garbage within the city of Fresno as a governmental function" (Clerk's transcript, page 19, lines 5-8), the trial court finding "that said Resolution No. 825 and said Ordinance No. 2078 set forth in detail the manner in which the City of Fresno, a municipal corporation, will collect and/or dispose of garbage within the City of Fresno as a governmental function". (Clerk's transcript, page 44, lines 8-12.) The trial court found "the court finds that it is untrue that said City of Fresno intends to and/or is going to collect and/or dispose of ... garbage for profit". (Clerk's transcript, page 40, lines 24-26.) It is not pointed out by appellant wherein the evidence does not sustain the findings of the trial court, and this burden rests upon it. (2 Cal. Jur. 730.)

() The argument is advanced that, notwithstanding the resolution and ordinance adverted to, it was the purpose of the commission to collect garbage for profit. The legislative enactments themselves contain recitals to the contrary, and there is evidence to the contrary, and it seems to be settled law that considerations which motivated municipal corporations to pass ordinances will not be impugned or inquired into (43 C. J. 297). "Nor can an ordinance be declared invalid because of the bad motives ... of the legislative body which enacted it." *Ex parte Sumida,* 177 Cal. 388 [170 Pac. 823], where it is held, among other things, that "the title of the ordinance declares, and its terms show ... its purpose. ... There may have been other designs in the minds of the Board of Trustees of the town in adopting the ordinance. But that question cannot be inquired into in this manner, nor can an ordinance be declared invalid because of the bad motives of the members ***560** of the legislative body which enacted it". Further it is held there can be no intent, not expressed in words, and no intent upon the part of the framers of an ordinance which does not find expression in their language. (*Ex parte Goodrich,* 160 Cal. 410 [117 Pac. 451, Ann. Cas. 1913A, 56]; 18 Cal. Jur. 927; 43 C. J. 570.) Where ordinances or by-laws have been enacted pursuant to competent authority they will be supported by every reasonable intendment, and reasonable doubts as to their validity will be resolved in their favor. Courts are bound to uphold municipal ordinances and by-laws unless they manifestly transcend the powers of the enacting body. (43 C. J. 570; *Ex parte Haskell,* 122 Cal. 412 [44 Pac. 725, 32 L. R. A. 527]; *In re Bruce,* 54 Cal. App. 280 [201 Pac. 789].) The power to regulate the collection of garbage comes directly from section 11 of article XI of the state Constitution. (*In re Zhizhuzza, supra.*) This provision is self-executing and contains a direct grant of power.) (*Denton v. Vann,* 8 Cal. App. 677 [97 Pac. 675].) The charter of Fresno could not in any manner detract from such power. (5 Cal. Jur. 576.) Because the city charges a fee and it may be hence argued that some incidental revenue would come to the municipality does not convert the ordinance into a revenue measure. (*Cornelius v. City of Seattle,* 123 Wash. 550 [213 Pac. 17].) Collection and disposal of refuse gathered by the city resulting in some small incidental revenue creates no municipal liability. (*Scibilia v. Philadelphia,* 279 Pa. 549 [124 Atl. 273, 32 A. L. R. 981].)

In a word, the evidence elicited from the plaintiff who had urged, among other things, that the collection of garbage was to be undertaken for profit and that no submission to the electors of the city had been undertaken, as is necessary for the institution of a utility, to wit: that disaster, financial and otherwise, would result from the enterprise, justifies the findings which have been hereinabove set forth.

() The plaintiff has not appealed, but counsel for appellant, former attorney for plaintiff, seeks to reverse the judgment below because the trial court denied the right of the taxpayer to interpose as a party, and denied, as well, his prayer that the proceedings looking toward the collection be vacated. In this behalf it may be said that if, upon the merits of the case as the same were developed by the immediate parties to the suit, it appears that the city had in ***561** a legal manner, and in the exercise of a governmental function, undertaken the collection of garbage, and that in so doing it was in all respects within the law, the presence or absence of the taxpayer appellant from the litigation becomes inconsequential.

The record (Clerk's transcript, pages 48 and 49) shows that appellant challenges the judgment: (a) insufficiency of the evidence to justify the decision and judgment; (b) the decision and judgment as against the law. The case of *City of Madera v. Black,* 181 Cal. 306 [184 Pac. 397], relied upon by appellant, involves a situation in which the city was denied the right to conduct a sewage system for profit, the reasoning of that case being that, since all persons in the tax unit were not receiving sewer service, the profits derived from the service and paid by the few taxpayers went into the general revenues of the city, and, hence, lightened the tax burdens on those who did not pay for sewer service. The circumstances of differentiation of the Madera and the instant cases are that the evidence before the trial court warranted the findings that the city was not collecting garbage for profit, that not only such was not its purpose, but that profit or an enhancement of the general revenues at the expense of some that were not receiving the service did not result.

The judgment should be and therefore is affirmed.

Tyler, P. J., and Knight, J., concurred.

59 S.Ct. 595
Supreme Court of the United States

GRAVES et al.
v.
PEOPLE OF STATE OF
NEW YORK ex rel. O'KEEFE.

No. 478.
|
Argued March 6, 1939.
|
Decided March 27, 1939.

Synopsis

On Writ of Certiorari to the Supreme Court of the State of New York.

Certiorari proceeding by the People of the State of New York, upon the relation of James B. O'Keefe, against Mark Graves and others, as commissioners constituting the State Tax Commission of the State of New York, to review a final determination of the State Tax Commission denying relator's application for the refund of income tax. To review a judgment of the Court of Appeals of New York, 278 N.Y. 691, 16 N.E.2d 404, which affirmed an order of the Supreme Court, Appellate Division, 253 App.Div. 91, 1 N.Y.S.2d 195, determining that the relator's salary was not subject to tax, the State Tax Commission brings certiorari.

Reversed.

Mr. Justice BUTLER and Mr. Justice McREYNOLDS, dissenting.

West Headnotes (11)

[1] Constitutional Law
United States Constitution

The federal government derives its authority wholly from the powers granted to it by the Constitution, and its every action within its constitutional power is "governmental action."

8 Cases that cite this headnote

[2] Taxation
United States Entities, Property, and Securities

All activities of the federal government constitutionally authorized by Congress must stand on a parity with respect to their constitutional immunity from taxation.

2 Cases that cite this headnote

[3] Taxation
United States Entities, Property, and Securities

When the federal government lawfully acts through a corporation which it owns and controls, those activities are "governmental functions" entitled to whatever tax immunity attaches to those functions when carried on by the government itself through its departments.

36 Cases that cite this headnote

[4] Constitutional Law
Nature and Scope in General

The federal government is one of delegated powers in the exercise of which Congress is supreme so that every agency which Congress can constitutionally create is a "governmental agency."

16 Cases that cite this headnote

[5] Constitutional Law
Nature and Scope in General

The power of Congress to create an agency includes the implied power to do whatever is needful or appropriate, if not expressly prohibited, to protect the agency.

1 Cases that cite this headnote

[6] Taxation

United States Entities, Property, and Securities

There is no basis for implying a purpose of Congress to exempt the federal government or its agencies from tax burdens which are unsubstantial or which courts are unable to discern, so far as the implication rests upon the purpose to avoid interference with the functions of the taxed government or the imposition upon it of the economic burden of the tax.

24 Cases that cite this headnote

[7] **Taxation**

United States Entities, Property, and Securities

When exemption from state taxation is claimed on the ground that the federal government is burdened by the tax and Congress has disclosed no intention with respect to the claimed immunity, the nature and effect of the alleged burden may be considered, and, if it appears that there is no ground for implying a constitutional immunity, there is equally a want of ground for assuming any purpose of Congress to create an immunity.

25 Cases that cite this headnote

[8] **Taxation**

Nature of Tax

A tax on income is not legally or economically a tax on its source.

6 Cases that cite this headnote

[9] **Internal Revenue**

Public Property and Institutions

Taxation

United States Entities, Property, and Securities

The implied immunity of a government, either federal or state, and its agencies from taxation by the other should, as a principle of constitutional construction, be narrowly restricted.

26 Cases that cite this headnote

[10] **Taxation**

Compensation of United States Officers and Employees

A nondiscriminatory income tax laid by state of New York upon salary of New York resident employed by the Federal Home Owners' Loan Corporation, a corporate instrumentality of the federal government, does not impose an unconstitutional burden upon the federal government, where Congress had not given any intimation of any purpose either to grant or withhold immunity from state taxation of the salary of the corporation's employees. Home Owners' Loan Act 1933, 12 U.S.C.A. § 1461 et seq.; Tax Law N.Y. § 359, subd. 2f.

147 Cases that cite this headnote

[11] **Internal Revenue**

Power to Impose

Taxation

Compensation of United States Officers and Employees

So much of the burden of a nondiscriminatory general tax upon the income of employees of a government, state or national, as may be passed on economically to that government through the effect of the tax on the price level of labor or materials, is but the normal incident of the organization within the same territory of two governments, each possessing the taxing power, and the burden is one which the constitution presupposes and it cannot rightly be deemed to be within an implied restriction upon the taxing power of the national and state governments.

54 Cases that cite this headnote

Attorneys and Law Firms

****596** ***467** Mr. Henry Epstein, of Albany, N.Y., for petitioner.

***472** Mr. Robert H. Jackson, Sol. Gen., for the United States, as amicus curiae, by special leave of Court.

***468** Mr. Daniel McNamara, Jr., of Brooklyn, N.Y., for respondent.

Opinion

Mr. Justice STONE delivered the opinion of the Court.

We are asked to decide whether the imposition by the State of New York of an income tax on the salary of an employee of the Home Owners' Loan Corporation places an unconstitutional burden upon the federal government.

Respondent, a resident of New York, was employed during 1934 as an examining attorney for the Home Owners' Loan Corporation at an annual salary of $2,400. In his income tax return for that year he included his salary as subject to the New York state income tax imposed by Art. 16 of the Tax Law of New York (Consol. Laws, c. 60). Subdivision 2f of s 359, since repealed, exempted from the tax 'Salaries, wages and other compensation received from the United States of officials or employees thereof, including persons in the military or naval forces of the United States. * * *' Petitioners, ***476** New York State Tax Commissioners, rejected respondent's claim for a refund of the tax based on the ground that his salary was constitutionally exempt from state taxation because the Home Owners' Loan Corporation is an instrumentality of the United States Government and that he, during the taxable year, was an employee of the federal government engaged in the performance of a governmental function.

On review by certiorari the Board's action was set aside by the Appellate Division of the Supreme Court of New York, People ex rel. O'Keefe v. Graves, 253 App.Div. 91, 1 N.Y.S.2d 195, whose order was affirmed by the Court of Appeals. 278 N.Y. 691, 16 N.E.2d 404. Both courts held respondent's salary was free from tax on the authority of New York ex rel. Rogers v. Graves, 299 U.S. 401, 57 S.Ct. 269, 81 L.Ed. 306, which sustained the claim that New York could not constitutionally tax the salary of an employee of the Penama Rail Road Company, a wholly-owned corporate instrumentality of the United States. We granted certiorari December 19, 1938, 305 U.S. 592, 59 S.Ct. 252, 83 L.Ed. 374, the constitutional question presented by the record being of public importance.

The Home Owners' Loan Corporation was created pursuant to s 4(a) of the Home Owners' Loan Act of 1933, 48 Stat. 128, 12 U.S.C. s 1461 et seq., 12 U.S.C.A. s 1461 et seq., which was enacted to provide emergency relief to home owners, particularly to assist them with respect to home mortgage indebtedness. The corporation, which is authorized to lend money to home owners on mortgages and to refinance home mortgage loans within the purview of the Act, is declared by s 4(a), 12 U.S.C.A. s 1463(a), to be an instrumentality of the United States. Its shares of stock are wholly government-owned. s 4(b). Its funds are deposited in the Treasury of the United States, and the compensation of its employees is paid by drafts upon the Treasury.

***477** **[1]** **[2]** **[3]** For the purposes of this case we may assume that the creation of the Home Owners' Loan Corporation was a constitutional exercise of the powers of the federal government. Cf. Kay v. United States, 303 U.S. 1, 58 S.Ct. 468, 82 L.Ed. 607. As that government derives its authority wholly from powers delegated to it by the Constitution, its every action within its constitutional power is governmental action, and since Congress is made the sole judge of what powers within the constitutional grant are to be exercised, all activities ****597** of government constitutionally authorized by Congress must stand on a parity with respect to their constitutional immunity from taxation. McCulloch v. Maryland, 4 Wheat. 316, 432, 4 L.Ed. 579; Van Brocklin v. Tennessee, 117 U.S. 151, 158-159, 6 S.Ct. 670, 674, 29 L.Ed. 845; South Carolina v. United States, 199 U.S. 437, 451, 452, 26 S.Ct. 110, 112, 50 L.Ed. 261, 4 Ann.Cas. 737; Helvering v. Gerhardt, 304 U.S. 405, 412-415, 58 S.Ct. 969, 971-973, 82 L.Ed. 1427. And when the national government lawfully acts through a corporation which it owns and controls, those activities are governmental functions entitled to whatever tax immunity attaches to those functions when carried on by the government itself through its departments. See McCulloch v. Maryland, supra, pages 421, 422 of 4 Wheat.; Smith v. Kansas City Title Co., 255 U.S. 180, 208, 41 S.Ct. 243, 248, 65 L.Ed. 577; Federal Land Bank v. Crosland, 261 U.S. 374, 43 S.Ct. 385, 67 L.Ed. 703, 29 A.L.R. 1; New York ex rel. Rogers v. Graves, supra.

The single question with which we are now concerned is whether the tax laid by the state upon the salary of respondent, employed by a corporate instrumentality of the federal government, imposes an unconstitutional

burden upon that government. The theory of the tax immunity of either government, state or national, and its instrumentalities, from taxation by the other, has been rested upon an implied limitation on the taxing power of each, such as to forestall undue interference, through the exercise of that power, with the governmental ***478** activities of the other. That the two types of immunity may not, in all respects, stand on a parity has been recognized from the beginning, McCulloch v. Maryland, supra, pages 435, 436 of 4 Wheat., and possible differences in application, deriving from differences in the source, nature and extent of the immunity of the governments and their agencies, were pointed out and discussed by this Court in detail during the last term. Helvering v. Gerhardt, supra, pages 412, 413, 416, 58 S.Ct. pages 972, 973.

[4] **[5]** So far as now relevant, those differences have been thought to be traceable to the fact that the federal government is one of delegated powers in the exercise of which Congress is supreme; so that every agency which Congress can constitutionally create is a governmental agency. And since the power to create the agency includes the implied power to do whatever is needful or appropriate, if not expressly prohibited, to protect the agency, there has been attributed to Congress some scope, the limits of which it is not now necessary to define, for granting or withholding immunity of federal agencies from state taxation. See Van Allen v. Assessors, 3 Wall. 573, 583, 585, 18 L.Ed. 229; Bank of New York v. Supervisors of New York County, 7 Wall. 26, 30, 31, 19 L.Ed. 60; Thomson v. Union Pacific Railroad, 9 Wall. 579, 588, 590, 19 L.Ed. 792; People of New York v. Weaver, 100 U.S. 539, 543, 25 L.Ed. 705; Mercantile Bank v. New York, 121 U.S. 138, 154, 7 S.Ct. 826, 834, 30 L.Ed. 895; Owensboro National Bank v. Owensboro, 173 U.S. 664, 668, 19 S.Ct. 537, 538, 43 L.Ed. 850; Shaw v. Gibson-Zahniser Oil Corp., 276 U.S. 575, 581, 48 S.Ct. 333, 335, 72 L.Ed. 709; Oklahoma v. Barnsdall Refineries, 296 U.S. 521, 525, 526, 56 S.Ct. 340, 342, 80 L.Ed. 366; Baltimore National Bank v. State Tax Comm., 297 U.S. 209, 211, 212, 56 S.Ct. 417, 419, 80 L.Ed. 586; British-American Company v. Board of Equalization, 299 U.S. 159, 57 S.Ct. 132, 81 L.Ed. 95; James v. Dravo Contracting Co., 302 U.S. 134, 161, 58 S.Ct. 208, 221, 82 L.Ed. 155, 114 A.L.R. 318; Helvering v. Gerhardt, supra, pages 411, 412, 417, 58 S.Ct. pages 971, 974; cf. United States v. Bekins, 304 U.S. 27, 52, 58 S.Ct. 811, 815, 82 L.Ed. 1137. Whether its power to grant tax exemptions as an incident to the exercise of powers specifically granted by the Constitution can ever, in any circumstances, extend beyond the constitutional ***479** immunity of federal agencies which courts have implied, is a question which need not now be determined.

Congress has declared in s 4 of the Act that the Home Owners' Loan Corporation is an instrumentality of the United States and that its bonds are exempt, as to principal and interest, from federal and state taxation, except surtaxes, estate, inheritance and gift taxes. The corporation itself, 'including its franchise, its capital, reserves and surplus, and its loans and income,' is likewise exempted from taxation; its real property is subject to tax to the same extent as other real property. ****598** But Congress has given no intimation of any purpose either to grant or withhold immunity from state taxation of the salary of the corporation's employees, and the Congressional intention is not to be gathered from the statute by implication. Cf. Baltimore National Bank v. State Tax Comm., supra.

[6] **[7]** It is true that the silence of Congress, when it has authority to speak, may sometimes give rise to an implication as to the Congressional purpose. The nature and extent of that implication depend upon the nature of the Congressional power and the effect of its exercise. [1] But ***480** there is little scope for the application of that doctrine to the tax immunity of governmental instrumentalities. The constitutional immunity of either government from taxation by the other, where Congress is silent, has its source in an implied restriction upon the powers of the taxing government. So far as the implication rests upon the purpose to avoid interference with the functions of the taxed government or the imposition upon it of the economic burden of the tax, it is plain that there is no basis for implying a purpose of Congress to exempt the federal government or its agencies from tax burdens which are unsubstantial or which courts are unable to discern. Silence of Congress implies immunity no more than does the silence of the Constitution. It follows that when exemption from state taxation is claimed on the ground that the federal government is burdened by the tax, and Congress has disclosed no intention with respect to the claimed immunity, it is in order to consider the nature and effect of the alleged burden, and if it appears that there is no ground for implying a constitutional immunity, there is equally a want of any ground for assuming any purpose on the part of Congress to create an immunity.

[8] The present tax is a non-discriminatory tax on income applied to salaries at a specified rate. It is not in

form or substance a tax upon the Home Owners' Loan Corporation or its property or income, nor is it paid by the corporation or the government from their funds. It is measured by income which becomes the property of the taxpayer when received as compensation for his services; and the tax laid upon the privilege of receiving it is paid from his private funds and not from the funds of the government, either directly or indirectly. The theory, which once won a qualified approval, that a tax on income is legally or economically a tax on its source, is no longer tenable, New York ex rel. Cohn v. Graves, 300 U.S. 308, 313, 314, 57 S.Ct. 466, 467, 81 L.Ed. 666, 108 A.L.R. 721; Hale v. State Board, 302 U.S. 95, 108, 58 S.Ct. 102, 106, 82 L.Ed. 72; ***481** Helvering v. Gerhardt, supra; cf. Metcalf & Eddy v. Mitchell, 269 U.S. 514, 46 S.Ct. 172, 70 L.Ed. 384; Fox Film Corp. v. Doyal, 286 U.S. 123, 52 S.Ct. 546, 76 L.Ed. 1010; James v. Dravo Contracting Co., supra, page 149, 58 S.Ct. page 216; Helvering v. Mountain Producers Corp., 303 U.S. 376, 58 S.Ct. 623, 82 L.Ed. 907, and the only possible basis for implying a constitutional immunity from state income tax of the salary of an employee of the national governmentor of a governmental agency is that the economic burden of the tax is in some way passed on so as to impose a burden on the national government ****599** tantamount to an interference by one government with the other in the performance of its functions.

In the four cases in which this Court has held that the salary of an officer or employee of one government or its instrumentality was immune from taxation by the other, it was assumed, without discussion, that the immunity of a government or its instrumentality extends to the salaries of its officers and employees.[2] This assumption, made with respect to the salary of a governmental officer ***482** in Dobbins v. Commissioners of Erie County, 16 Pet. 435, 10 L.Ed. 1022, and in Collector v. Day, 11 Wall. 113, 20 L.Ed. 122, was later extended to confer immunity on income derived by a lessee from lands leased to him by a government in the performance of a governmental function, Gillespie v. Oklahoma, 257 U.S. 501, 42 S.Ct. 171, 66 L.Ed. 338; Burnet v. Coronado Oil & Gas Co., 285 U.S. 393, 52 S.Ct. 443, 76 L.Ed. 815, and cases cited, although the claim of a like exemption from tax on the income of a contractor engaged in carrying out a government project was rejected both in the case of a contractor with a state, ***483** Metcalf & Eddy v. Mitchell, supra, and of a contractor with the national government, James v. Dravo Contracting Co., supra.

[9] The ultimate repudiation in ****600** Helvering v. Mountain Producers Corp., supra, of the doctrine that a tax on the income of a lessee derived from a lease of government owned or controlled lands is a forbidden interference with the activities of the government concerned led to the reexamination by this Court, in the Gerhardt case, of the theory underlying the asserted immunity from taxation by one government of salaries of employees of the other. It was there pointed out that the implied immunity of one government and its agencies from taxation by the other should, as a principle of constitutional construction, be narrowly restricted. For the expansion of the immunity of the one government correspondingly curtails the sovereign power of the other to tax, and where that immunity is invoked by the private citizen it tends to operate for his benefit at the expense of the taxing government and without corresponding benefit to the government in whose name the immunity is claimed. See Metcalf & Eddy v. Mitchell, supra, pages 523, 524, 46 S.Ct. page 174; James v. Dravo Contracting Co., supra, pages 156-158, 58 S.Ct. pages 219, 220. It was further pointed out that, as applied to the taxation of salaries of the employees of one government, the purpose of the immunity was not to confer benefits on the employees by relieving them from contributing their share of the financial support of the other government, whose benefits they enjoy, or to give an advantage to that government by enabling it to engage employees at salaries lower than those paid for like services by other employers, public or private,[3] but to ***484** prevent undue interference with the one government by imposing on it the tax burdens of the other.

In applying these controlling principles in the Gerhardt case the Court held that the salaries of employees of the New York Port Authority, a state instrumentality created by New York and New Jersey, were not immune from federal income tax, even though the Authority be regarded as not subject to federal taxation. It was said that the taxpayers enjoyed the benefit and protection of the laws of the United States and were under a duty, common to all citizens, to contribute financial support to the government; that the tax laid on their salaries and paid by them could be said to affect or burden their employer, the Port Authority, or the states creating it, only so far as the burden of the tax was economically passed on to

the employer; that a non-discriminatory tax laid on the income of all members of the community could not be assumed to obstruct the function which New York and New Jersey had undertaken no perform, or to cast an economic burden upon them, more than does the general taxation of property and income which, to some extent, incapable of measurement by economists, may tend to raise the price level of labor and materials. [4] The Court concluded ***485** that the claimed immunity would do no more than relieve the taxpayers from the duty of financial support to the national government in order to secure to the state a theoretical advantage, speculative in character and measurement and too unsubstantial to form the basis of an implied ****601** constitutional immunity from taxation.

The conclusion reached in the Gerhardt case that in terms of constitutional tax immunity a federal income tax on the salary of an employee is not a prohibited burden on the employer makes it imperative that we should consider anew the immunity here claimed for the salary of an employee of a federal instrumentality. As already indicated, such differences as there may be between the implied tax immunity of a state and the corresponding immunity of the national government and its instrumentalities may be traced to the fact that the national government is one of delegated powers, in the exercise of which it is supreme. Whatever scope this may give to the national government to claim immunity from state taxation of all instrumentalities which it may constitutionally create, and whatever authority Congress may possess as incidental to the exercise of its delegated powers to grant or withhold immunity from state taxation, Congress has not sought in this case to exercise such power. Hence these distinctions between the two types of immunity cannot affect the question with which we are now concerned. The burden on government of a non-discriminatory income tax applied to the salary of the employee of a government or its instrumentality is the same, whether a state or national government is concerned. The determination in the Gerhardt case that the federal income tax imposed on the employees of the Port Authority was not a burden on the Port Authority made it unnecessary to consider whether the Authority itself was immune from federal taxation; the claimed immunity failed because even if the Port Authority were ***486** itself immune from federal income tax, the tax upon the income of its employees case upon it no unconstitutional burden.

[10] Assuming, as we do, that the Home Owners' Loan Corporation is clothed with the same immunity from state taxation as the government itself, we cannot say that the present tax on the income of its employees lays any unconstitutional burden upon it. All the reasons for refusing to imply a constitutional prohibition of federal income taxation of salaries of state employees, stated at length in the Gerhardt case, are of equal force when immunity is claimed from state income tax on salaries paid by the national government or its agencies. In this respect we perceive no basis for a difference in result whether the taxed income be salary or some other form of compensation, or whether the taxpayer be an employee or an officer of either a state or the national government, or of its instrumentalities. In no case is there basis for the assumption that any such tangible or certain economic burden is imposed on the government concerned as would justify a court's declaring that the taxpayer is clothed with the implied constitutional tax immunity of the government by which he is employed. That assumption, made in Collector v. Day, supra, and in New York ex rel. Rogers v. Graves, supra, is contrary to the reasoning and to the conclusions reached in the Gerhardt case and in Metcalf & Eddy v. Mitchell, supra; Group No. 1 Oil Corporation v. Bass, 283 U.S. 279, 51 S.Ct. 432, 75 L.Ed. 1032; James v. Dravo Contracting Co., supra; Helvering v. Mountain Producers Corp., supra; McLoughlin v. Commissioner, 303 U.S. 218, 58 S.Ct. 539, 82 L.Ed. 758. In their light the assumption can no longer be made. Collector v. Day, supra, and New York ex rel. Rogers v. Graves, supra, are overruled so far as they recognize an implied constitutional immunity from income taxation of the salaries of officers or employees of the national or a state government or their instrumentalities.

***487** **[11]** So much of the burden of a nondiscriminatory general tax upon the incomes of employees of a government, state or national, as may be passed on economically to that government, through the effect of the tax on the price level of labor or materials, is but the normal incident of the organization within the same territory of two governments, each possessing the taxing power. The burden, so far as it can be said to exist or to affect the government in any indirect or incidental way, is one which the Constitution presupposes, and hence it cannot rightly be deemed to be within an implied restriction upon the taxing power of the national and state governments which the Constitution has expressly granted to one and has confirmed to the other. The immunity is

not one to be implied from the Constitution, because if allowed it would impose to an inadmissible **602 extent a restriction on the taxing power which the Constitution has reserved to the state governments.

Reversed.

Mr. Chief Justice HUGHES concurs in the result.

Mr. Justice FRANKFURTER, concurring.

I join in the Court's opinion but deem it appropriate to add a few remarks. The volume of the Court's business has long since made impossible the early healthy practice whereby the Justices gave expression to individual opinions.[1] But the old tradition still has relevance when an important shift in constitutional doctrine is announced after a reconstruction in the membership of the Court. Such shifts of opinion should not derive from mere private judgment. They must be duly mindful of the necessary demands of continuity in civilized society. *488 A reversal of a long current of decisions can be justified only if rooted in the Constitution itself as an historic document designed for a developing nation.

For one hundred and twenty years this Court has been concerned with claims of immunity from taxes imposed by one authority in our dual system of government because of the taxpayer's relation to the other. The basis for the Court's intervention in this field has not been any explicit provision of the Constitution. The States, after they formed the Union, continued to have the same range of taxing power which they had before, barring only duties affecting exports, imports, and on tonnage.[2] Congress, on the other hand, to lay taxes in order 'to pay the Debts and provide for the common Defence and general Welfare of the United States', Art. 1, Sec. 8, U.S.C.A.Const., can reach every person and every dollar in the land with due regard to Constitutional limitations as to the method of laying taxes. But, as is true of other great activities of the state and national governments, the fact that we are a federalism raises problems regarding these vital powers of taxation. Since two governments have authority within the same territory, neither through its power to tax can be allowed to cripple the operations of the other. Therefore state and federal governments must avoid exactions which discriminate against each other or obviously interfere with one another's operations. These were the determining considerations that led the great Chief Justice to strike down the Maryland statute as an unambiguous measure of discrimination against the use by the United States of the Bank of the United States as one of its instruments of government.

The arguments upon which McCulloch v. Maryland, 4 Wheat. 316, 4 L.Ed. 579, rested had their roots in actuality. But they have been distorted by sterile refinements unrelated *489 to affairs. These refinements derived authority from an unfortunate remark in the opinion in McCulloch v. Maryland. Partly as a flourish of rhetoric and partly because the intellectual fashion of the times indulged a free use of absolutes, Chief Justice Marshall gave currency to the phrase that 'the power to tax involves the power to destroy.' Id., at page 431 of 4 Wheat. This dictum was treated as though it were a constitutional mandate. But not without protest. One of the most trenchant minds on the Marshall court, Justice William Johnson, early analyzed the dangerous inroads upon the political freedom of the States and the Union within their respective orbits resulting from a doctrinaire application of the generalities uttered in the course of the opinion in McCulloch v. Maryland.[3] The seductive cliche that the power to tax involves the power to destroy was fused with another assumption, likewise not to be found in the Constitution itself, namely the doctrine that the immunities are correlative-because the existence of the national government implies immunities from state taxation, the existence of state governments implies equivalent immunities from federal taxation. When this doctrine was first applied Mr. Justice Bradley registered a powerful dissent,[4] the force of which **603 gathered rather than lost strength with time. imes indulged a free use of absolutes, Chief Justice M.

*490 All these doctrines of intergovernmental immunity have until recently been moving in the realm of what Lincoln called 'pernicious abstractions'. The web of unreality spun from Marshall's famous dictum was brushed away by one stroke of Mr. Justice Holmes's pen: 'The power to tax is not the power to destroy while this Court sits'. Panhandle Oil Co. v. Mississippi, 277 U.S. 218, 223, 48 S.Ct. 451, 453, 72 L.Ed. 857, 56 A.L.R. 583 (dissent). Failure to exempt public functionaries from the universal duties of citizenship to pay for the costs of government was hypothetically transmuted into hostile action of one government against the other. A succession of decisions thereby withdrew from the taxing power

of the States and Nation a very considerable range of wealth without regard to the actual workings of our federalism,[5] and this, too, when the financial needs of all governments began steadily to mount. These decisions have encountered increasing dissent.[6] In view of the powerful pull of our decisions upon the courts charged with maintaining the constitutional equilibrium of the two other great English federalisms, the Canadian and the Australian courts were at first inclined to follow the earlier doctrines of this Court regarding intergovernmental immunity.[7] ***491** Both the Supreme Court of Canada and the High Court of Australia on fuller consideration-and for present purposes the British North America Act, 30 & 31 Vict., c. 3, and the Commonwealth of Australia Constitution Act, 63 & 64 Vict., c. 12, raise the same legal issues as does our Constitution[8]-have completely rejected the doctrine of intergovernmental immunity.[9] In this Court dissents have gradually become majority opinions, and even before the present decision the rationale of the doctrine had been undermined.[10]

****604** The judicial history of this doctrine of immunity is a striking illustration of an occasional tendency to encrust unwarranted interpretations upon the Constitution and thereafter to consider merely what has been judicially said about the Constitution, rather than to be primarily controlled by a fair conception of the Constitution. Judicial exegesis is unavoidable with reference to an organic act like our Constitution, drawn in many particulars with purposed vagueness so as to leave room for the unfolding future. But the ultimate touchstone of constitutionality is the Constitution itself and not what we ***492** have said about it.[11] Neither Dobbins v. Commissioners of Erie County, 16 Pet. 435, 10 L.Ed. 1022, and its offspring, nor Collector v. Day, supra, and its, can stand appeal to the Constitution and its historic purposes. Since both are the starting points of an interdependent doctrine, both should be, as I assume them to be, overruled this day. Whether Congress may, by express legislation, relieve its functionaries from their civic obligations to pay for the benefits of the State governments under which they live is matter for another day.

Mr. Justice BUTLER, dissenting.

Mr. Justice McREYNOLDS and I are of opinion that the Home Owners' Loan Corporation, being an instrumentality of the United States heretofore deemed immune from state taxation, 'it necessarily results,' as held in New York ex rel. Rogers v. Graves, 1937, 299 U.S. 401, 57 S.Ct. 269, 272, 81 L.Ed. 306, 'that fixed salaries and compensation paid to its officers and employees in their capacity as such are likewise immune'; and that the judgment of the state court, unquestionably required by that decision, should be affirmed.

From the decision just announced, it is clear that the Court has overruled Dobbins v. Commissioners of Erie County, 1842, 16 Pet. 435, 10 L.Ed. 1022, Collector v. Day, 1871, 11 Wall. 113, 20 L.Ed. 122, New York ex rel. Rogers v. Graves, supra, and Brush v. Commissioner, 1937, 300 U.S. 352, 57 S.Ct. 495, 81 L.Ed. 691, 108 A.L.R. 1428. Thus now it appears that the United States has always had power to tax salaries of state officers and employees and that ***493** similarly free have been the States to tax salaries of officers and employees of the United States. The compensation for past as well as for future service to be taxed and the rates prescribed in the exertion of the newly disclosed power depend on legislative discretion not subject to judicial revision. Futile indeed are the vague intimations that this Court may protect against excessive or destructive taxation. Where the power to tax exists, legislatures may exert it to destroy, to discourage, to protect or exclusively for the purpose of raising revenue. See e.g. Veazie Bank v. Fenno, 8 Wall. 533, 548, 19 L.Ed. 482; McCray v. United States, 195 U.S. 27, 53 et seq., 24 S.Ct. 769, 775, 49 L.Ed. 78, 1 Ann.Cas. 561; Magnano Co. v. Hamilton, 292 U.S. 40, 44 et seq., 54 S.Ct. 599, 601, 78 L.Ed. 1109; Cincinnati Soap Co. v. United States, 301 U.S. 308, 57 S.Ct. 764, 81 L.Ed. 1122.

Appraisal of lurking or apparent implications of the Court's opinion can serve no useful end for, should occasion arise, they may be ignored or given direction differing from that at first seemingly intended. But safely it may be said that presently marked for destruction is the doctrine of reciprocal immunity that by recent decisions here has been so much impaired.

All Citations

306 U.S. 466, 59 S.Ct. 595, 83 L.Ed. 927, 120 A.L.R. 1466, 39-1 USTC P 9411, 22 A.F.T.R. 290, 1939-1 C.B. 129

Footnotes

1 The failure of Congress to regulate interstate commerce has generally been taken to signify a Congressional purpose to leave undisturbed the authority of the states to make regulations affecting the commerce in matters of peculiarly local concern, but to withhold from them authority to make regulations affecting those phases of it which, because of the need of a national uniformity, demand that their regulation, if any, be prescribed by a single authority. Cooley v. Board of Wardens, 12 How. 299, 319, 13 L.Ed. 996; Minnesota Rate Cases, 230 U.S. 352, 399, 400, 33 S.Ct. 729, 739, 57 L.Ed. 1511, 48 L.R.A.,N.S., 1151, Ann.Cas.1916A, 18; Kelly v. Washington, 302 U.S. 1, 14, 58 S.Ct. 87, 94, 82 L.Ed. 3; South Carolina State Highway Dept. v. Barnwell Brothers, 303 U.S. 177, 184, 185, 58 S.Ct. 510, 513, 82 L.Ed. 734; Milk Control Board v. Eisenberg Farm Products, 306 U.S. 346, 59 S.Ct. 528, 83 L.Ed. 752, decided February 27, 1939. As to the implications from Congressional silence in the field of state taxation of interstate commerce and its instrumentalities, see Western Live Stock v. Bureau of Revenue, 303 U.S. 250, 58 S.Ct. 546, 82 L.Ed. 823, 115 A.L.R. 944; Gwin, White & Prince, Inc. v. Henneford, 305 U.S. 434, 59 S.Ct. 325, 83 L.Ed. 272, decided January 3, 1939.

2 In Dobbins v. Commissioners of Erie County, 16 Pet. 435, 10 L.Ed. 1022, a Pennsylvania tax, nominally laid upon the office of the captain of a federal revenue cutter, but roughly measured by the salary paid to the officer, ws held invalid. The Court seems to have rested its decision in part on the ground that a tax on the emoluments of his office was the equivalent of a tax upon an activity of the national government, and in part on the ground that it was an infringement of the implied superior power of Congress to fix the compensation of government employees without diminution by state taxation.

'In Collector v. Day, 11 Wall. 113, 20 L.Ed. 122, this Court held that the salary of a state probate judge was constitutionally immune from federal income tax on the grounds that the salary of an officer of a state is exempt from federal taxation if the function he performs as an officer is exempt, citing Dobbins v. Commissioner of Erie County, supra, and that there was an implied constitutional restriction upon the power of the national government to tax a state in the exercise of those functions which were essential to the maintenance of state governments as they were organized at the time when the Constitution was adopted. The possibility that a non-discriminatory tax upon the income of a state officer did not involve any substantial interference with the functioning of the state government was not discussed either in this or the Dobbins case.

In New York ex rel. Rogers v. Graves, 299 U.S. 401, 57 S.Ct. 269, 81 L.Ed. 306, the question was whether the salary of the general counsel of the Panama Rail Road Company was exempt from state income tax because the railroad company was an instrumentality of the federal government. The sole question raised by the taxing state was whether the railroad company was a government instrumentality. The Court, having found that the railroad company was such an instrumentality, disposed of the matter of tax exemption of the salary of its employees by declaring: 'The railroad company being immune from state taxation, it necessarily results that fixed salaries and compensation paid to its officers and employees in their capacity as such are likewise immune.' New York ex rel. Rogers v. Graves, supra, page 408, 57 S.Ct. page 272.

In Brush v. Commissioner, 300 U.S. 352, 57 S.Ct. 495, 81 L.Ed. 691, 108 A.L.R. 1428, the applicable treasury regulation upon which the government relied exempted from federal income tax the compensation of 'state officers and employees' for 'services rendered in connection with the exercise of an essential governmental function of the State.' The Court held that the maintenance of the public water system of New York City was an essential governmental function, and in determining whether the salary of the engineer in charge of that project was subject to federal income tax the Court declared, citing New York ex rel. Rogers v. Graves, supra, page 408, 57 S.Ct. page 272: 'The answer depends upon whether the water system of the city was created and is conducted in the exercise of the city's governmental functions. If so, its operations are immune from federal taxation and, as a necessary corollary, 'fixed salaries and compensation paid to its officers and employees in their capacity as such are likewise immune.'' Brush v. Commissioner, supra, page 360, 57 S.Ct. page 495.

3 The fact that the expenses of the one government might be lessened if all those who deal with it were exempt from taxation by the other was thought not to be an adequate basis for tax immunity in Metcalf & Eddy vs not to confer benefits on the employees by relieving the Group No. 1 Oil Corp. v. Bass, 283 U.S. 279, 51 S.Ct. 432, 75 L.Ed. 1032; Burnet v. Jergins Trust, 288 U.S. 508, 53 S.Ct. 439, 77 L.Ed. 925; James v. Dravo Contracting Co., 302 U.S. 134, 58 S.Ct. 208, 82 L.Ed. 155, 114 A.L.R. 318; Helvering v. Mountain Producers Corp., 303 U.S. 376, 58 S.Ct. 623, 82 L.Ed. 907.

4 That the economic burden of a tax on salaries is passed on to the employer or that employees will accept a lower government salary because of its tax immunity, are formulas which have not won acceptance by economists and cannot be judicially assumed. As to the 'passing on' of the economic burden of the tax, see Seligman, Income Tax, VII Encyclopedia of Social Sciences, 626-638; Plehn, Public Finance (5th Ed.), p. 320; Buehler, Public Finance, p. 240; Lutz, Public Finance (2d Ed.), p. 336, and see Indian Motocycle Co. v. United States, 283 U.S. 570, 581, footnote 1, 51 S.Ct.

601, 603, 75 L.Ed. 1277. As to preference for government employment because the salary is tax exempt, see Dickinson, Compensating Industrial Effort (1937), pp. 7-8; Douglas, The Reality of Non-Commercial Incentives in Industrial Life, c. V of The Trend of Economics (1924); Vol. I, Fetter, Economic Principles (1915), p. 203.

1 The state of the docket of the High Court of Australia and that of the Supreme Court of Canada still permits them to continue the classic practice of seriatim opinions.

2 Article 1, Sec. 10, U.S.Constitution, U.S.C.A.

3 Weston v. City Council of Charleston, 2 Pet. 449, 472, 473, 7 L.Ed. 481.

4 'I dissent from the opinion of the court in this case, because it seems to me that the general government has the same power of taxing the income of officers of the state governments as it has of taxing that of its own officers. * * * In my judgment, the limitation of the power of taxation in the general government, which the present decision establishes, will be found very difficult to control. Where are we to stop in enumerating the functions of the state governments which will be interfered with by Federal taxation? * * * How can we now tell what the effect of this decision will be? I cannot but regard it as founded on a fallacy, and that it will lead to mischievous consequences.' 11 Wall. 113, 128, 129.

5 E.g., Gillespie v. Oklahoma, 257 U.S. 501, 42 S.Ct. 171, 66 L.Ed. 338; Panhandle Oil Co. v. Mississippi, 277 U.S. 218, 48 S.Ct. 451, 72 L.Ed. 857, 56 A.L.R. 583; Macallen Co. v. Massachusetts, 279 U.S. 620, 49 S.Ct. 432, 73 L.Ed. 874, 65 A.L.R. 866; Indian Motocycle Co. v. United States, 283 U.S. 570, 51 S.Ct. 601, 75 L.Ed. 1277; Burnet v. Coronado Oil & Gas Co., 285 U.S. 393, 52 S.Ct. 443, 76 L.Ed. 815; New York ex rel. Rogers v. Graves, 299 U.S. 401, 57 S.Ct. 269, 81 L.Ed. 306; Brush v. Commissioner of Internal Revenue, 300 U.S. 352, 57 S.Ct. 495, 81 L.Ed. 691, 108 A.L.R. 1428.

6 E.g., Mr. Justice Brandeis, dissenting, in Jaybird Mining Co. v. Weir, 271 U.S. 609, 615, 46 S.Ct. 592, 594, 70 L.Ed. 1112; Justice Holmes, dissenting, in Panhandle Oil Co. v. Mississippi, 277 U.S. 218, 222, 48 S.Ct. 451, 452, 72 L.Ed. 857, 56 A.L.R. 583; Mr. Justice Stone, dissenting, in Indian Motocycle Co. v. United States, 283 U.S. 570, 580, 51 S.Ct. 601, 604, 75 L.Ed. 1277; Mr. Justice Roberts, dissenting, in Brush v. Commissioner of Internal Revenue, 300 U.S. 352, 374, 57 S.Ct. 495, 502, 81 L.Ed. 691, 108 A.L.R. 1428. See, also, Mr. Justice Black, concurring, in Helvering v. Gerhardt, 304 U.S. 405, 424, 58 S.Ct. 969, 977, 82 L.Ed. 1427.

7 Bank of Toronto v. Lambe, 12 App.Cas. 575; D'Emden v. Pedder, 1 C.L.R. 91.

8 Especially is this true of the Australian Constitution. One of its framers, who afterwards became one of the most distinguished of Australian judges, Mr. Justice Higgins, characterized it as having followed our Constitution with 'pedantic imitation.' Australasian Temperance and General Mutual Life Assurance Co., Ltd., v. Howe, 31 C.L.R. 290, 330.

9 Abbott v. City of St. John, 40 Can.Sup.Ct. 597; Caron v. The King, (1924) A.C. 999; Amalgamated Society of Engineers v. Adelaide Steamship Co., Ltd., 28 C.L.R. 129; West v. Commissioner of Taxation, 56 C.L.R. 657.

10 E.g., James v. Dravo Contracting Co., 302 U.S. 134, 58 S.Ct. 208, 82 L.Ed. 155, 114 A.L.R. 318; Helvering v. Mountain Producers Corp., 303 U.S. 376, 58 S.Ct. 623, 82 L.Ed. 907; Helvering v. Gerhardt, 304 U.S. 405, 58 S.Ct. 969, 82 L.Ed. 1427.

11 Compare Taney, C.J., in Passenger Cases, 7 How. 283, 470, 12 L.Ed. 702: 'I * * * am quite willing that it be regarded as the law of this court, that its opinion upon the construction of the Constitution is always open to discussion when it is supposed to have been founded in error, and that its judicial authority should hereafter depend altogether on the force of the reasoning by which it is supported.'

223 N.C.App. 26
Court of Appeals of North Carolina.

Richard HORNE and wife, Meredith Horne, Parker Horne, by and through his GAL, Scott W. Heintzelman, Plaintiffs,
v.
TOWN OF BLOWING ROCK d/b/a Blowing Rock Park, Defendant.

No. COA12–196.
|
Oct. 2, 2012.

Synopsis

Background: Minor and his parents brought personal injury against town after minor was injured when he stepped into a drain hole in municipal recreation area. The District Court, Watauga County, R. Greg Horne, J., converted town's motion to dismiss into a motion for summary judgment and denied the motion, and town appealed.

Holdings: The Court of Appeals, McCullough, J., held that:

[1] order was appealable in part;

[2] court appropriately converted motion for judgment on the pleadings into a motion for summary judgment; and

[3] genuine issue of material fact as to whether town's operation of municipal recreation area was a proprietary or a governmental function precluded summary judgment on grounds of governmental immunity.

Affirmed.

West Headnotes (8)

[1] Appeal and Error
On motion for dismissal or nonsuit

Trial court's interlocutory order denying town's motion to dismiss on grounds of sovereign immunity was immediately appealable to the extent the motion alleged a failure to state a claim or sought judgment on the pleadings, which was converted to a motion for summary judgment; however, the order was not immediately appealable to the extent the trial court denied town's motion to dismiss due to lack of subject matter jurisdiction. Rules Civ.Proc., Rule 12(b)(1, 6), (c), West's N.C.G.S.A. § 1A–1.

4 Cases that cite this headnote

[2] Appeal and Error
On motion for dismissal or nonsuit

The denial of a motion to dismiss for lack of subject matter jurisdiction is not immediately appealable, even where the defense of sovereign immunity is raised. Rules Civ.Proc., Rule 12(b)(1), West's N.C.G.S.A. § 1A–1.

2 Cases that cite this headnote

[3] Judgment
Motion or Other Application

Trial court appropriately converted town's motion for judgment on the pleadings into a motion for summary judgment in light of its consideration of additional documents submitted by town in connection with the motion that were not in accident victim's complaint, including an endorsement which disputed accident victim's arguments concerning waiver of sovereign immunity based on purchase of insurance and the affidavit of an insurance adjuster, as well its consideration of the arguments presented by counsel. Rules Civ.Proc., Rules 12(c), 56, West's N.C.G.S.A. § 1A–1.

3 Cases that cite this headnote

[4] Judgment
Motion or Other Application

Pleading
Construction, operation, and effect in general

Pleading

Matters considered

If documents are attached to and incorporated within a complaint, they become part of the complaint, and therefore may be considered in connection with a motion for judgment on the pleadings without converting it into a motion for summary judgment; a document attached to the moving party's pleading may not be considered in connection with a motion for judgment on the pleadings unless the nonmoving party has made admissions regarding the document. Rules Civ.Proc., Rule 12(c), West's N.C.G.S.A. § 1A–1.

6 Cases that cite this headnote

[5] **Municipal Corporations**

Performance of governmental or corporate functions in general

Generally a municipal corporation is immune to suit for negligence of its agents in the performance of its governmental functions.

Cases that cite this headnote

[6] **Municipal Corporations**

Corporate powers in general

A municipality may be liable for negligence, despite governmental immunity, if the injury occurs while the agents of the municipality are performing a proprietary rather than a governmental function.

Cases that cite this headnote

[7] **Municipal Corporations**

Parks and public squares and places

A municipality's operation and maintenance of free public parks for the recreation of its citizens is traditionally a governmental function for which governmental immunity will ordinarily apply; but a municipality may waive such governmental immunity when revenue is derived either from the operation of the park itself or from the conduct of activities within the park, which can render the park's operation and maintenance a proprietary function. West's N.C.G.S.A. § 160A–351.

Cases that cite this headnote

[8] **Judgment**

Existence of defense

Genuine issue of material fact as to whether town's operation of municipal recreation area was a proprietary or a governmental function, and thus whether town had governmental immunity, precluded summary judgment on personal injury claims brought by minor and his family after minor stepped in a drain hole in the recreation area. West's N.C.G.S.A. § 160A–351.

Cases that cite this headnote

****615** Appeal by defendant from order entered 22 November 2011 by Judge R. Greg Horne in Watauga County District Court. Heard in the Court of Appeals 16 August 2012.

Attorneys and Law Firms

The Roberts Law Firm, P.A., Gastonia, by Scott W. Roberts, for plaintiff appellees.

Cranfill Sumner & Hartzog LLP, by Patrick H. Flanagan, Charlotte, and Kelly Beth Smith, for defendant appellant.

Opinion

McCULLOUGH, Judge.

***27** The Town of Blowing Rock, d/b/a Blowing Rock Park ("defendant") appeals from an order of the trial court converting its Rule 12(c) motion to dismiss into a motion for summary judgment and denying its motion to dismiss plaintiffs' action on the basis of governmental immunity. We affirm.

I. Background

Blowing Rock Park is a municipal recreation area located in Blowing Rock, North Carolina, and is maintained by the Town of Blowing Rock. On 25 February 2011, plaintiffs filed a complaint against defendant alleging that on 20 June 2011, the minor plaintiff Parker Horne was walking through Blowing Rock Park when he "stepped into a drain hole that was completely obscured from his view by overgrown grass and grass clippings," which caused him to sustain injuries to his left ankle and other portions of his body. Plaintiffs asserted, *inter alia,* that defendant was negligent in failing to inspect the park's premises, failing to warn visitors of hidden perils or unsafe conditions, and failing to properly maintain the grass around the drain hole. Plaintiffs Richard and Meredith Horne, parents of the minor plaintiff, sought recovery for all medical bills incurred on behalf of the minor, and the minor plaintiff Parker Horne sought a money judgment for his pain and suffering.

In their complaint, plaintiffs alleged that defendant had "waived its immunity for the suit by the purchase of liability insurance." On 26 April 2011, defendant filed an answer and motion to dismiss pursuant to Rules 12(b)(1), 12(b)(6), and 12(c) of the North Carolina Rules of Civil Procedure. In its motion to dismiss, defendant asserted that it was entitled to governmental immunity, and therefore plaintiffs' claims were barred. In support of its motion to dismiss based on governmental immunity, defendant attached a copy of an endorsement clause contained in its insurance policy titled "Sovereign Immunity Non–Waiver Endorsement," as well as an affidavit from its insurance adjuster, Laurie Scheel ("Scheel"), attesting to the authenticity of the insurance policy and its endorsement clause. The endorsement clause at issue states that "[n]othing in this policy, coverage part or ***28** coverage form waives sovereign immunity for any insured[,]" and that the policy provides "no coverage" for any claim or suit for which defendant would otherwise have no liability because of sovereign immunity.

On 19 September 2011, a hearing was held on defendant's motion to dismiss. On 22 November 2011, the trial court entered an order stating that "[b]ased on receipt of the affidavit [of Scheel], the court will treat Defendant's Rule 12(c) motion as a motion for summary judgment (Rule 56)." Based on its "review of the pleadings, the sole affidavit and exhibit tendered, and arguments of counsel[,]" ****616** the trial court granted partial summary judgment in favor of defendant as to plaintiffs' claim that defendant had waived its governmental immunity by the purchase of liability insurance. However, citing this Court's opinion in *Estate of Williams v. Pasquotank County,* —— N.C.App. ——, 711 S.E.2d 450 (2011), *vacated and remanded,* —— N.C. ——, 732 S.E.2d 137 (2012), the trial court found there remained genuine issues of material fact and denied the remainder of defendant's motion to dismiss. On 22 December 2011, defendant gave timely written notice of appeal to this Court from the trial court's order.

II. Appealability

[1] Because defendant appeals the trial court's denial of its motion to dismiss pursuant to Rules 12(b)(1), 12(b)(6) and 12(c), an interlocutory order, we must first address the issue of appealability. *See Data Gen. Corp. v. Cty. of Durham,* 143 N.C.App. 97, 100, 545 S.E.2d 243, 245 (2001) (noting that the denial of a motion to dismiss is interlocutory and ordinarily is not immediately appealable). Plaintiffs argue defendant's appeal should be dismissed as interlocutory, since defendant is admittedly appealing the trial court's denial of its motion to dismiss pursuant to Rule 12(b)(1), and this Court has expressly held that "the denial of a motion to dismiss pursuant to Rule 12(b)(1) for lack of subject matter jurisdiction is not immediately appealable." *Id.* at 100, 545 S.E.2d at 246.

To the contrary, defendant argues that this Court has consistently allowed immediate appellate review of "orders denying dispositive motions grounded on the defense of governmental immunity," as they affect a substantial right. *Hedrick v. Rains,* 121 N.C.App. 466, 468, 466 S.E.2d 281, 283 (1996). Our review of relevant case law reveals defendant's assertion is correct in the context of appeals from orders denying a party's motion to dismiss under Rules 12(b)(2) (personal ***29** jurisdiction), 12(b)(6) (failure to state a claim), and 12(c) (judgment on the pleadings), and for summary judgment under Rule 56(c). *See, e.g., Transportation Servs. of N.C., Inc. v. Wake Cnty. Bd. of Educ.,* 198 N.C.App. 590, 593, 680 S.E.2d 223, 225 (2009) (allowing interlocutory review of trial court's denial of motion to dismiss under Rules 12(b)(2) and 12(b)(6)); *Davis v. Dibartolo,* 176 N.C.App. 142, 144, 625 S.E.2d 877, 879 (2006) ("The denial of a 12(b)(6) motion to dismiss for failure to state a claim is immediately appealable where the motion raises the

defense of sovereign immunity."); *Hedrick,* 121 N.C.App. at 468, 466 S.E.2d at 283 (allowing interlocutory review of denial of Rule 12(c) motion for judgment on the pleadings asserting governmental immunity); *Owen v. Haywood Cnty.,* 205 N.C.App. 456, 458, 697 S.E.2d 357, 358–59 (denial of motion for summary judgment on grounds of governmental immunity is immediately appealable as affecting a substantial right), *disc. review denied,* 364 N.C. 615, 705 S.E.2d 361 (2010).

[2] However, as plaintiffs correctly contend, this Court has expressly held that "the denial of a 12(b)(1) motion to dismiss for lack of subject matter jurisdiction is not immediately appealable, even where the defense of sovereign immunity is raised." *Davis,* 176 N.C.App. at 144–45, 625 S.E.2d at 880 (citing *Data Gen. Corp.,* 143 N.C.App. at 100, 545 S.E.2d at 246). In *Meherrin Indian Tribe v. Lewis,* 197 N.C.App. 380, 677 S.E.2d 203 (2009), this Court reiterated this point in holding that "defendants' appeal from the denial of their Rule 12(b)(1) motion based on sovereign immunity is neither immediately appealable pursuant to N.C. Gen.Stat. § 1–277(b), nor affects a substantial right." *Id.* at 385, 677 S.E.2d at 207.

Here, defendant's motion to dismiss was asserted pursuant to Rules 12(b)(1), 12(b)(6), and 12(c). We may properly review the trial court's denial of defendant's motion to dismiss under Rule 12(b)(6) or Rule 12(c). However, in light of this Court's holdings in *Data Gen. Corp., Davis,* and *Lewis,* an interlocutory review of the trial court's order denying defendant's motion to dismiss pursuant to Rule 12(b)(1) is not properly before this Court.

We note that in its brief, defendant first asserts that the trial court erred in denying its Rule 12(b)(1) motion to dismiss. Throughout its argument on the issue, however, defendant simply argues the trial court erred in denying its "motion to dismiss," without specifying under which Rule, and at ****617** times, defendant asserts the trial court erred in denying summary judgment in its favor on the grounds of governmental immunity. Given this Court's preference for reaching ***30** the merits of an appeal, *see Dogwood Dev. & Mgmt. Co., LLC v. White Oak Transp. Co.,* 362 N.C. 191, 199, 657 S.E.2d 361, 366 (2008), and in light of the trial court's order converting defendant's Rule 12(c) motion into a motion for summary judgment we will allow defendant's appeal and consider defendant's argument as contending the trial court erred either in denying its motion to dismiss under Rule 12(c) or in denying summary judgment in its favor on the grounds of governmental immunity.

III. Conversion of Motion to Dismiss Into Motion for Summary Judgment

[3] Defendant's first argument on appeal is that the trial court erred in converting its Rule 12(c) motion to dismiss into a Rule 56 motion for summary judgment. We disagree.

[4] Rule 12(b) provides that a motion to dismiss for failure to state a claim under Rule 12(b)(6) "shall be treated as one for summary judgment and disposed of as provided in Rule 56" where "matters outside the pleading are presented to and not excluded by the court" in ruling on the motion. N.C. Gen.Stat. § 1A–1, Rule 12(b) (2011); *see also Data Gen. Corp.,* 143 N.C.App. at 102, 545 S.E.2d at 247. Rule 12(c) contains an identical provision, stating that "[i]f, on a motion for judgment on the pleadings, matters outside the pleadings are presented to and not excluded by the court, the motion shall be treated as one for summary judgment and disposed of as provided in Rule 56[.]" N.C. Gen.Stat. § 1A–1, Rule 12(c) (2011).

> The general rules about which documents can be considered on a Rule 12(c) motion are as follows: if documents are attached to and incorporated within a complaint, they become part of the complaint. They may, therefore, be considered in connection with a Rule ... 12(c) motion without converting it into a motion for summary judgment. A document attached to the moving party's pleading may not be considered in connection with a Rule 12(c) motion unless the nonmoving party has made admissions regarding the document.

Estate of Means v. Scott Elec. Co., Inc., 207 N.C.App. 713, 717, 701 S.E.2d 294, 297 (2010) (ellipsis in original) (internal quotation marks and citations omitted).

Our case law has consistently treated submission of affidavits as a matter outside the pleadings. *See Town of Bladenboro v. McKeithan,* 44 N.C.App. 459, 460, 261 S.E.2d 260, 261 (1980) (treating ***31** motion for summary judgment as Rule 12(c) motion where the record "contains no affidavits"); *Minor v. Minor,* 70 N.C.App. 76, 78, 318 S.E.2d 865, 867 (1984) (Rule 12(c) motion must be treated as summary judgment motion where record "contains affidavits"); *Groves v. Community Hous. Corp.,* 144 N.C.App. 79, 86, 548 S.E.2d 535, 540 (2001) (trial court's summary judgment order treated as order for judgment on pleadings under Rule 12(c) where record "contains no affidavits, answers to interrogatories, or transcripts of arguments by counsel"); *Lambert v. Cartwright,* 160 N.C.App. 73, 75–76, 584 S.E.2d 341, 343 (2003) (trial court properly considered pleadings and attached exhibits in ruling on Rule 12(c) motion, noting that "[n]o affidavits were submitted to the trial court, and no evidence was taken"). In addition to affidavits, in both *Minor* and *Groves,* this Court indicated that arguments by counsel are likewise considered "matters outside the pleadings." *Minor,* 70 N.C.App. at 78, 318 S.E.2d at 867; *Groves,* 144 N.C.App. at 86, 548 S.E.2d at 540.

Here, the trial court's order plainly indicates it considered the affidavit of Scheel submitted by defendant, the moving party, as well as "arguments of counsel." Defendant relies on *Eastway Wrecker Serv., Inc. v. City of Charlotte,* 165 N.C.App. 639, 599 S.E.2d 410 (2004), for its contention that its attachments can be considered as incorporated into plaintiffs' complaint because plaintiffs alleged the existence of defendant's liability insurance policy and that such policy was the "subject of plaintiffs' complaint." *Eastway Wrecker* is inapposite, however, because in that case, the plaintiff incorporated the exhibits at issue into the complaint and expressly referenced those exhibits in the complaint. ****618** *Id.* at 642, 599 S.E.2d at 412. As we explained above, exhibits incorporated into a plaintiff's complaint are proper for consideration in ruling on a Rule 12(c) motion without converting the motion into a motion for summary judgment. Here, however, plaintiffs simply alleged that "[u]pon information and belief, [defendant] has waived its immunity for the suit by the purchase of liability insurance." Even if such an allegation could be considered an admission as to the existence of defendant's liability insurance policy, defendant did not simply attach a copy of the insurance policy as an exhibit to its answer. Rather, defendant attached only an endorsement that disputed plaintiffs' arguments concerning defendant's liability, in addition to the affidavit of its insurance adjuster. In light of its consideration of the additional documents submitted by defendant, the moving party, as well as arguments presented by counsel, the trial court did not err in converting defendant's Rule 12(c) motion into a motion for summary judgment.

***32** *IV. Applicability of Governmental Immunity*

A. Standard of Review

The standard of review for a trial court's ruling on a motion for summary judgment is *de novo. Forbis v. Neal,* 361 N.C. 519, 524, 649 S.E.2d 382, 385 (2007). "Under a *de novo* standard of review, this Court considers the matter anew and freely substitutes its own judgment for that of the trial court." *Reese v. Mecklenburg Cnty.,* 200 N.C.App. 491, 497, 685 S.E.2d 34, 38 (2009).

> The entry of summary judgment is appropriate where the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that any party is entitled to a judgment as a matter of law. All inferences of fact from the proofs offered at the hearing must be drawn against the movant and in favor of the party opposing the motion. Summary judgment is proper when an essential element of the opposing party's claim does not exist, cannot be proven at trial, or would be barred by an affirmative defense.

Owen, 205 N.C.App. at 458–59, 697 S.E.2d at 359 (internal quotation marks, citations, and ellipses omitted); *see also* N.C. Gen.Stat. § 1A–1, Rule 56 (2011).

B. Governmental Immunity

Defendant's primary contention on appeal is whether the trial court erred in denying summary judgment in its

favor on the basis of governmental immunity. Defendant argues the operation of a public park is a governmental function, thereby entitling it to governmental immunity from plaintiffs' action, because (1) the legislature has established that operation of a public park is a governmental function, (2) there is no evidence in the record showing that operation of the park at issue was a proprietary function, and (3) public policy favors a ruling that defendant's operation of a public park is a governmental function thereby triggering governmental immunity.

[5] **[6]** It is well-established that "generally a municipal corporation is immune to suit for negligence of its agents in the performance of its governmental functions. However, the rule is subject to this modification: A [municipality] may be liable if the injury occurs while the agents of the [municipality] are performing a proprietary rather than a governmental function." *Rich v. City of Goldsboro,* 282 N.C. 383, 385, 192 S.E.2d 824, 826 (1972). Our Supreme Court has explained ***33** that a governmental function is an activity that is "discretionary, political, legislative, or public in nature and performed for the public good in behalf of the State rather than for itself [.]" *Britt v. City of Wilmington,* 236 N.C. 446, 450, 73 S.E.2d 289, 293 (1952). On the other hand, a proprietary function is an activity that is "commercial or chiefly for the private advantage of the compact community [.]" *Id.* Thus, our Supreme Court has held that " [w]hen a municipality is acting 'in behalf of the State' in promoting or protecting the health, safety, security, or general welfare of its citizens, it is an agency of the sovereign. When it engages in a public enterprise essentially for the benefit of the compact community, it is acting within its proprietary powers." *Id.* at 450–51, 73 S.E.2d at 293.

****619** Our Supreme Court has recently announced that "the threshold inquiry in determining whether a function is proprietary or governmental is whether, and to what degree, the legislature has addressed the issue." *Estate of Williams v. Pasquotank Cnty. Parks & Rec. Dep't,* ——N.C. ——, ——, 732 S.E.2d 137, —— (2012). Like the present case, the defendant in *Williams* asserted that N.C. Gen.Stat. § 160A–351, North Carolina's Recreation Enabling Law, is dispositive. *Id.* Section 160A–351 provides:

> The lack of adequate recreational programs and facilities is a menace to the morals, happiness, and welfare of the people of this State. Making available recreational opportunities for citizens of all ages is a subject of general interest and concern, and a function requiring appropriate action by both State and local government. The General Assembly therefore declares that the public good and the general welfare of the citizens of this State require adequate recreation programs, that *the creation, establishment, and operation of parks and recreation programs is a proper governmental function,* and that it is the policy of North Carolina to forever encourage, foster, and provide these facilities and programs for all its citizens.

N.C. Gen.Stat. § 160A–351 (2011) (emphasis added). In *Williams,* our Supreme Court noted this statute is "clearly relevant" to the question of whether the defendant's conduct in maintaining and operating a swimming area within a public park is a governmental or proprietary endeavor. *Williams,* —— N.C. at ——, 732 S.E.2d at ——. Nonetheless, our Supreme Court declined to hold that the statute is ultimately determinative of the issue. *Id.* Rather, our Supreme Court explained that "even if the operation of a parks and recreation program is a governmental function by statute, the question ***34** remains whether the specific operation of the [swimming area] component of [the public recreation area], in this case and under these circumstances, is a governmental function." *Id.*

In *Williams,* our Supreme Court further recognized that "not every nuanced action that could occur in a park or other recreational facility has been designated as governmental or proprietary in nature by the legislature[,]" and stated that "[w]hen the legislature has not directly resolved whether a specific activity is governmental or proprietary in nature, other factors are relevant." *Id.* at ——, 732 S.E.2d at ——. These factors include whether the undertaking is one in which only a governmental agency could engage, whether the undertaking is traditionally one provided by a governmental entity, whether a substantial fee is charged for the service provided, and whether that fee does more

than simply cover the operating costs of the service provider. *Id.* at ——, 732 S.E.2d at ——. Ultimately, "the proper designation of a particular action of a county or municipality is a fact intensive inquiry, turning on the facts alleged in the complaint, and may differ from case to case." *Id.* at ——, 732 S.E.2d at ——.

In *Glenn v. City of Raleigh,* 246 N.C. 469, 98 S.E.2d 913 (1957), our Supreme Court considered a factual scenario similar to the present case. In *Glenn,* the minor plaintiff was severely injured when a rock thrown from a lawn mower struck him in the head while he was sitting at a table in a public park operated by the City of Raleigh. *Id.* at 470, 98 S.E.2d at 913–14. On appeal, our Supreme Court determined the City did not have governmental immunity from the plaintiff's action due to the income the City was deriving from the operation of the park, noting that "[i]n order to deprive a municipal corporation of the benefit of governmental immunity, ... the act or function must involve special corporate benefit or pecuniary profit inuring to the municipality." *Id.* at 476–77, 98 S.E.2d at 918–19 (internal quotation marks and citation omitted).

[7] Our Supreme Court later clarified that "[t]he holding in *Glenn* was based upon the fact [that] the evidence showed the city operated the park as a business enterprise rather than in the governmental capacity of providing recreation for its citizens." *Rich,* 282 N.C. at 387, 192 S.E.2d at 827. In *Rich,* our Supreme Court considered "whether Goldsboro is liable in damages for the negligent acts of its officers or agents in failing to ****620** inspect, discover defects, and keep in good repair the playground equipment in Herman Park, the city's public ***35** playground." *Id.* at 385, 192 S.E.2d at 826. Considering the minimal income the City of Goldsboro derived from operation of its train ride within the park, our Supreme Court in *Rich* upheld summary judgment in favor of the City on the basis of governmental immunity. *Id.* at 387–88, 192 S.E.2d at 827. Thus, prior cases in this State reveal that a municipality's operation and maintenance of free public parks for the recreation of its citizens is traditionally a governmental function for which governmental immunity will ordinarily apply; but a municipality may waive such governmental immunity when revenue is derived either from the operation of the park itself or from the conduct of activities within the park, which can render the park's operation and maintenance a proprietary function. *See Hickman v. Fuqua,* 108 N.C.App. 80, 82–84, 422 S.E.2d 449, 451–52 (1992).

[8] Here, defendant asserts there is no evidence in the record indicating it charged a fee for use of Blowing Rock Park or that the Town of Blowing Rock received a profit or derived substantial income from the operation of Blowing Rock Park. Plaintiffs contend that this assertion is precisely why the trial court correctly denied summary judgment and/or defendant's motion to dismiss, as such issues are material facts that cannot be ascertained from the record.

We agree with plaintiffs, given our Supreme Court's holdings in *Glenn* and *Rich,* which considered the relevant factors reiterated by our Supreme Court in *Williams.* None of these factors appear to be addressed by the record before us. In order for the trial court to grant summary judgment in favor of defendant, there must be no remaining issues of material fact. The burden is on the movant, here defendant, to "show that no material issue of fact exists and that he is clearly entitled to judgment." *Ragsdale v. Kennedy,* 286 N.C. 130, 137, 209 S.E.2d 494, 499 (1974). We recognize our statutes and case law, in addition to the case law of other jurisdictions, generally favor the application of governmental immunity in the operation and maintenance of public parks, particularly in cases where there is no income derived by the municipality in operating and maintaining the park. *See generally, Liability of municipal corporations for injuries due to conditions in parks,* 142 A.L.R. 1340 (1943). Here, however, as the trial court properly found, there remain issues of fact as to the revenue or income derived, if any, from defendant's operation of the park. We note that, although plaintiffs attempt to distinguish the particular activity of lawn maintenance from the general undertaking of operating the public park here, such distinction is meaningless, as lawn maintenance of a public park is an indispensable aspect of establishing and operating such park.

***36** Although *Williams* indicates the trial court should consider the relevant factors outlined above in light of the facts alleged in the complaint, we note that in both *Glenn* and *Rich,* evidence of the income derived by the municipality in its operation of the park at issue came to light either through trial testimony, *see Glenn,* 246 N.C. at 471–72, 98 S.E.2d at 914–15, or through answers to interrogatories, *see Rich,* 282 N.C. at 384, 192 S.E.2d at 825, prior to the defendant's moving for summary judgment. Here, we note the factual allegations

in plaintiffs' complaint do not address the factors to be considered by the trial court in making a determination on whether defendant's operation of Blowing Rock Park is a governmental or proprietary function. However, given the procedural posture in this case, in which the trial court converted defendant's motion to dismiss into a motion for summary judgment without taking further evidence, and the trial court's recognition that discovery is ongoing in this case, we conclude plaintiffs' failure to allege such relevant facts in their complaint is not dispositive. Rather, such facts could have, and can be, easily resolved through discovery and presented to the trial court with a subsequent motion for summary judgment. Nonetheless, under the present circumstances, summary judgment is not proper on this record, where all the relevant factors in determining the application of governmental immunity have not been addressed by the parties and considered by the trial court.

****621** Finally, we note that, although plaintiffs briefly contend the endorsement contained in defendant's liability insurance policy violates statutory law, plaintiffs nonetheless state, twice, that such contention is "not an issue on appeal," and plaintiffs have not appealed from the trial court's grant of summary judgment in favor of defendant on the issue of whether defendant waived governmental immunity by the purchase of its liability insurance policy. Nonetheless, in light of this Court's discussion in *Owen v. Haywood County,* 205 N.C.App. 456, 459–61, 697 S.E.2d 357, 359–60, *disc. review denied,* 364 N.C. 615, 705 S.E.2d 361 (2010), and the line of cases discussed therein addressing this issue, the trial court did not err in granting summary judgment in favor of defendant on this issue.

V. Conclusion

The question of governmental immunity is a substantial right allowing for interlocutory appellate review, but only for denial of a motion to dismiss under Rules 12(b)(2), 12(b)(6), and 12(c), or a motion for summary judgment under Rule 56. We cannot review a trial court's order denying a motion to dismiss under Rule 12(b)(1). ***37** Although defendant argues the trial court erred in denying its Rule 12(b)(1) motion, the trial court also denied its Rule 12(b)(6) and Rule 12(c) motions, as well as summary judgment, on the basis of governmental immunity, which we may review.

Given the trial court's consideration of defendant's attached exhibits, including an affidavit, as well as the arguments of counsel, the trial court did not err in converting defendant's Rule 12(c) motion into a motion for summary judgment. The trial court properly found there remain issues of defendant's operation of the park. Accordingly, summary judgment is not proper on this record, and the trial court properly denied summary judgment in favor of defendant on the issue of governmental immunity.

Affirmed.

Judges CALABRIA and STROUD concur.

All Citations

223 N.C.App. 26, 732 S.E.2d 614

196 Cal. 43, 235 P. 1004

In the Matter of the Issuance of the Bonds of OROSI PUBLIC UTILITY DISTRICT, in the County of Tulare, State of California. OROSI PUBLIC UTILITY DISTRICT, Respondent,
v.
J. F. MCCUAIG, Appellant.

Supreme Court of California.
Sac. No. 3682.
April 15, 1925.

[1]
PUBLIC UTILITY DISTRICTS—PUBLIC IMPROVEMENTS—BOUNDARIES—BENEFITS—RIGHT TO HEARING.
The legislature itself may create a district to be assessed for the benefit of a public improvement, and determine its boundaries, either by describing them or by laying down a fixed rule by which they may be determined. If it does so, the property owners are not entitled to a hearing on the question of benefits to the land included within the district, for they are conclusively presumed to have been heard through their representatives in the legislature.

[2]
ID.—FORMATION OF DISTRICTS—GENERAL PLAN—DETERMINATION OF BOUNDARIES—HEARING ON BENEFITS.
Instead of creating a district to be assessed for public improvements by a special act, the legislature may, by a general law, provide for its formation, and may delegate to some board, commission, or tribunal the determination of what lands shall be included within its boundaries. In the event that the district be formed under such an act, the inquiry becomes judicial in its nature to such an extent that property owners are entitled to a hearing, or an opportunity to be heard, on the question of benefits before their lands are included, as to whether their lands should be assessed at all and as to the amount of the tax to be assessed against them.

[3]
ID.—SPECIAL ASSESSMENTS—RIGHT OF TAXPAYER TO NOTICE.
Somewhere during the process of arriving at the amount of any special assessments which may be levied on property the taxpayer must have an opportunity to be heard as to the validity and extent of the tax, and notice and opportunity must be provided as an essential part of the statutory provision.

[4]
ID.—ASSESSMENT DISTRICTS—QUASI-MUNICIPAL CORPORATIONS—DIFFERENCE IN.
There is an obvious distinction to be drawn between an act providing for the formation of an assessment district, which practically authorizes property owners without notice to place burdens on the property of others for the sole purpose of improving their own property, and an act providing for the formation of a *quasi*-municipal corporation or a municipality.

[5]
ID.—SPECIAL ASSESSMENT DISTRICTS.
Districts such as those formed for the purpose of draining, irrigating, reclaiming, or otherwise directly benefiting the lands affected thereby are created for the purpose generally of some special local improvement, and may exercise only such powers as may be conferred by the legislature in the line of the object of their creation, and the exactions which they may enforce are in the nature of assessments, or taxes for local benefits, to be spread on the property in the districts in proportion to the peculiar advantage accruing to each parcel from the improvement; and such districts are not municipal corporations in the contemplation of the constitution.

[6]
ID.—MUNICIPAL CORPORATIONS—ARTICLE XI, SECTION 6, CONSTITUTION.
The provision in article XI, section 6 of the constitution that "corporations for municipal purposes shall not be created by special laws" does not imply that the legislature must, by any general law, provide a plan in which shall be prescribed a mode under which all municipal corporations must be organized and the powers they can exercise.

[7]

ID.—AMENDMENT OF 1911 TO ARTICLE XI OF CONSTITUTION.
The amendment of 1911 to article XI of the constitution (Const., art. XI, sec. 19), providing that any municipal corporation may establish and operate public works for supplying its inhabitants with light, water, power, heat, transportation, telephone service, or other means of communication, definitely settled and removed all doubt as to the right of cities and towns to own and operate the kind of public utilities therein designated.

[8]
ID.—PUBLIC UTILITY DISTRICTS IN UNINCORPORATED TERITORY—ACT OF 1921—PURPOSE OF.
The intention of the legislature in passing the act of 1921 (Stats. 1921, p. 906), providing for the organization of public utility districts in unincorporated territory, was to make provision whereby the inhabitants of the state living outside the limits of cities and towns may serve their own purposes through the operation of the same kind of utilities, as the constitution provides that municipalities may establish for themselves, and it was the intention to provide for the creation of public corporations of a *quasi*-municipal character, with power to carry on the particular functions committed to them.

[9]
ID.—OROSI PUBLIC UTILITY DISTRICT—POWERS.
It is not necessary that a district like the Orosi Public Utility District shall exercise all the powers of local self-government which usually pertain to municipal corporations. All that was required was that the legislature should vest them, when properly organized, with such governmental powers as in its judgment were necessary to be exercised and appropriate to carry out the purposes for which the districts may have been organized. And it may enlarge or restrict their powers, direct the mode and manner of their exercise, and define what acts they may or may not perform.

[10]
ID.—MUNICIPAL CORPORATIONS—OBJECT OF.
The creation of municipal corporations does not have for its sole object the formation of political subdivisions of the state for governmental purposes, but there is also the association of the members of the particular community for the administration of their local business and affairs in matters largely outside of the sphere of government as such; and it is apparent that the legislature had in view such association of the people living in the outlying districts when it enacted the statute for the formation of public utility districts in the unincorporated territory of the state, and it thereby provided for the creation of public agencies or *quasi*-municipal corporations, the declared purpose of the act being to extend to the inhabitants of such districts, when properly organized, advantages in the use and benefit of certain utilities which they might not be able to obtain in any other way, and which tend to promote the general welfare of the people of the state, and the power of the legislature so to do cannot be denied.

[11]
ID.—MUNICIPALITIES—FUNCTIONS—TAXATION.
While a municipality, which undertakes to supply those of its inhabitants who will pay therefor with utilities and facilities of urban life, is performing a function not governmental, but more often committed to private corporations or persons with whom it may come into competition, it is, in fact, engaging in business upon municipal capital, and for municipal purposes; and any tax thereafter levied and collected for the purpose of supplying such municipal capital is not a tax or assessment on property directly benefited by the construction of some local improvement, but is a general tax levied just as, and for the same purpose that, any general municipal tax is imposed for carrying on the governmental functions and utilitarian objects of duly incorporated cities or towns.

[12]
ID.—ACT OF 1921—CONSTITUTIONALITY OF.
As the act of 1921, providing for the incorporation of public utility districts in unincorporated territory (Stats. 1921, p. 906), provides for the formation of a public or *quasi*-municipal corporation, inhabitants and property owners of which are subject to tax by the district for municipal purposes only, the act is not unconstitutional.

[13]
ID.—FORMATION OF PUBLIC UTILITY DISTRICTS—DUE PROCESS—NOTICE AND HEARING FOR LAND OWNER.
The requirement as to due process of law does not give a property owner an absolute right to notice and hearing

before his property may be included within the limits of a municipality or *quasi*-municipal corporation, by reason of the creation of which his property will be subjected only to the burden of a general tax for the purposes for which the district was formed, in contradistinction to a tax or assessment for some local benefit; and a property owner is not entitled to a notice and opportunity to be heard on the question of benefits to his land before it can be included within the boundaries of a public utility district created under the act of 1921 (Stats. 1921, p. 906).

APPEAL from a judgment of the Superior Court of Tulare County. W.B. Wallace, Judge. Affirmed.

The facts are stated in the opinion of the court.

***46** Walter C. Haight for Appellant.
Fred C. Scott and Leroy McCormick for Respondent.
Edward F. Treadwell, *Amicus Curiae.*

WASTE, J.

The Orosi Public Utility District was organized under the provisions of an act providing for the incorporation ***47** of public utility districts in unincorporated territory. (Stats. 1921, p. 906.) The board of directors of the district brought an action in the superior court of the county of Tulare to determine the validity of an $18,000 bond issue voted by the people of the district for the purpose of raising money for developing, pumping, storing, and distributing water. John F. McCuaig, a resident freeholder and taxpayer, answered the petition, alleging that all proceedings in relation to the issuance of the bonds were null and void for the reason that the utility district was not duly organized and incorporated, because the act of the legislature under which it was formed was unconstitutional. The trial court determined all issues in favor of the due organization and incorporation of the district, and the legality of the bonds, and entered its decree affirming their validity. The taxpayer has appealed on the judgment-roll alone.

The act providing for the incorporation of public untility districts in unincorporated territory states that whenever electors equal in number to fifteen per cent of all the votes cast for all candidates for Governor within such unincorporated territory at the last preceding general election, at which a Governor was elected, desire to organize such a district, they shall sign a petition setting forth the boundaries of the proposed district, and present same to the board of supervisors of the county in which the unincorporated territory is situated. The board of supervisors shall, within fifteen days after the presentation of the petition, publish a copy thereof, together with a statement that the proposition involved therein, which shall be briefly specified, will be submitted by it to the qualified electors of the unincorporated territory at a special election, after publication of the required notice. Within five days after the result of the election is ascertained, if it appears that a majority of the votes cast is in favor of the incorporation of the district, the board of supervisors shall so declare, and shall in a proper order state the name and boundaries of the district, and that such utility district is formed under the provisions of the act (*supra*). After the date of the filing of certain certificates with the Secretary of State, the territory described in the petition shall be deemed incorporated as a public utility district, under the provisions of the statute, with all the rights, privileges, and powers set forth therein.

***48** Under the provisions of the act, any public utility district so formed shall have power to have perpetual succession, to sue and be sued, to adopt and alter a seal, to acquire, hold, and dispose of real and personal property necessary to the full and continued exercise of its power, to acquire, construct, own, operate, control, or use works for supplying the inhabitants of the district with light, water, power, heat, transportation, telephone service, or other means of communication, or means for the disposition of garbage, sewage, or refuse matter, and to do all things necessary or convenient to the full exercise of the powers granted by the act. Whenever there is a surplus of water, light, heat or power above that which may be required by the inhabitants or municipalities within the district, the district may sell or otherwise dispose of the surplus outside of the district. It also may exercise the right of eminent domain for the condemnation of private property for public use, and may construct its works across or along any street or highway, or over the lands and property of the state, and in that connection is given the same rights and privileges as are granted to municipalities. It may borrow money and issue bonds or other evidence of indebtedness within certain limitations, levy and collect, or cause to be levied or collected, taxes for the purpose of carrying on its operations and paying its obligations, and may make contracts, employ labor, and do all acts necessary or convenient for the full exercise of the powers granted to it, which are to be exercised by a board of

directors elected by the voters in the district, which board may act by ordinance or resolution signed by its president and attested by the secretary. The act further provides (section 39) that if from any cause the revenues of the district shall be inadequate to pay the principal or interest on any bonded debt as it becomes due, or if funds are needed to carry out the objects and purposes of the district, which cannot be provided for out of the revenues of the district, the board of directors may levy a tax for that purpose on the taxable property situated in the district. It may by ordinance, the provisions of which shall be conformable to the general law, provide the mode and manner of assessing, correcting or equalizing assessments, and the levying and collecting of taxes which may be by actions or legal proceedings; or it may elect to avail itself of the assessment ***49** made by the county assessor of the county in which the district is situated. All taxes levied under the provisions of the act are a lien on the property on which they are levied, and the enforcement of the collection of the taxes may be had in the same manner and by the same means as provided by law for the enforcement of liens for state and county taxes.

The act of 1921, as originally enacted, and as it stood when the respondent district was formed, did not provide for any notice of the hearing of the petition for the formation of the district. The property owners within the proposed district were not given an opportunity to protest against having their property included within its boundaries, nor were they accorded an opportunity to be heard as to whether their property was or could be benefited by being included within such boundaries. For that reason, the appellant takes the position that the act is unconstitutional and in contravention of the fourteenth amendment of the federal constitution, and contrary to similar provisions in the constitution of the state, in that it provides for a taking of his property without due process of law. It follows, he argues, that all proceedings taken for the organization of the district, and the subsequent proceedings relating to the issue of the bonds, which are dependent upon the validity of the organization of the district, are null and void, and, as a necessary consequence, the bonds sought to be validated by this proceeding are invalid. After the proceedings involved in this case were had, the act was amended (Stats. 1923, p. 299) to provide for a notice and a hearing by the board of supervisors of the petition for the formation of a utility district. It is now provided that the board must hear all competent and relevant testimony offered in support of, or in opposition to, the petition. It shall make such changes as it may deem advisable in, and shall define and establish the proposed boundaries. At the time the proceedings for the formation of the Orosi District were taken no discretionary power whatever was vested in any legislative body. Upon presentation of the petition therefor, the board of supervisors was compelled to immediately submit the question of the formation of the district to the voters residing within the described limits. The question whether or not the exact territory described in the petition should be included in, and constitute the utility district, was made to depend solely ***50** upon an affirmative vote of the body of the electorate residing therein. Appellant contends that to permit a district, formed under such a statute, to levy a tax on property for nonpayment of which the property may be sold, is to subject the property owner to deprivation of his property without due process of law.

It is not contended that any of the steps leading to the formal declaration by the board of supervisors of Tulare County that the respondent district was in fact created were omitted, or that they were not properly taken. The sole question to be determined on appeal relates to the constitutionality of the act under which the district was created. Our first consideration is, therefore, directed to the nature of the district which may be formed under its provisions. If it be one formed for the primary purpose of assessing upon the lands within its boundaries benefits to be derived by the lands from some public improvement for which purpose the district is created, we must hold with appellant, and declare the act unconstitutional as violating the "due process clause" of the federal constitution. Such districts can be legally created in but two ways, neither of which was followed in this case.

(1) The legislature itself may create a district to be assessed for the benefit of a public improvement, and determine its boundaries, either by describing them or by laying down a fixed rule by which they may be determined. If it does so, the property owners are not entitled to a hearing on the question of benefits to the land included within the district, for they are conclusively presumed to have been heard through their representatives in the legislature. (*Tarpey v. McClure,* 190 Cal. 593, 604 [213 Pac. 983]; *Miller & Lux, Inc., v. Drainage Dist.,* 182 Cal. 252, 265 [187 Pac. 1041]; *Fallbrook Irr. Dist. v. Bradley,* 164 U.S. 112, 174 [41 L. Ed. 369, 17 Sup. Ct. Rep. 56, see, also, Rose's U. S. Notes].)

(2) Instead of creating the district by special act, the legislature may, by a general law, provide for its formation, and may delegate to some board, commission or tribunal the determination of what lands shall be included within its boundaries. In the event that the district be formed under such an act, the inquiry becomes judicial in its nature to such an extent that property owners are entitled to a hearing, or an opportunity to be heard, on the question of benefits before their lands are included. ***51** If the district be formed under this method of delegated power, it is essential that the property owners whose property is to be included shall be given a hearing upon the question whether their lands should be assessed at all, that is to say, whether or not such lands would be benefited by the proposed improvement, and also a hearing upon the amount of the tax to be assessed against the property. (*Spencer v. Merchant,* 125 U. S. 345, 356 [31 L. Ed. 763, 8 Sup. Ct. Rep. 921, see, also, Rose's U. S. Notes]; *Fallbrook Irr. Dist. v. Bradley, supra,* p. 174; *Brookes v. City of Oakland,* 160 Cal. 423, 431 [117 Pac. 433]; *Miller & Lux v. Board of Supervisors,* 189 Cal. 254, 261 [208 Pac. 304].)

(3) Somewhere during the process of arriving at the amount of any special assessments which may be levied on property the taxpayer must have an opportunity to be heard as to the validity and extent of the tax, and that notice and opportunity must be provided as an essential part of the statutory provision. (*Security Trust Co. v. Lexington,* 203 U. S. 323, 333 [51 L. Ed. 204, 27 Sup. Ct. Rep. 87, see, also, Rose's U. S. Notes]; *Central of Georgia By. v. Wright,* 207 U. S. 127, 138 [12 Ann. Cas. 463, 52 L. Ed. 134, 28 Sup. Ct. Rep. 47].) The respondent district was not created by the legislature itself, and the act providing for its formation makes no provision for the submission of the question, as to what lands should be included within its boundaries, to any tribunal before which the property owners, whose lands were included in the petition, might have a hearing.

(4) The rule laid down in *Fallbrook Irr. Dist. v. Bradley, supra,* which has been so constantly adhered to by this court in its application to assessment districts formed for the purpose of assessing upon private lands the benefits to accrue from the particular public improvement for the construction of which the district was formed (*Miller & Lux v. Board of Supervisors,* 189 Cal. 254, 267 [208 Pac. 304]), does not apply to every kind of public or *quasi*-public corporation. There is an obvious distinction to be drawn between an act providing for the formation of an assessment district, and which practically authorizes property owners, without notice, to place burdens on the property of others for the sole purpose of improving their own property, and an act providing for the formation of a *quasi*-municipal corporation or a municipality. (***52** *People v. Ontario,* 148 Cal. 625, 632 [84 Pac. 205]; *Wilcox v. Engebretsen,* 160 Cal. 288, 293 [116 Pac. 750].) That distinction, it was pointed out in the latter case, is to be made between the proceedings of a board, acting in pursuance of some delegated legislative authority in creating a political subdivision of the state, as a county or a city, a proceeding which does not directly affect private property, and proceedings which do directly charge or affect such property. The respondent takes the position that it is a public corporation, and that any burden, by way of taxation, to be laid on the inhabitants residing within its boundaries is but a tax for municipal purposes. In view of the distinction, pointed out by this court (*supra*), between the acts providing for the formation, on the one hand, of public or *quasi*-public corporations, in the nature of taxing districts, and of municipal corporations, on the other, and in view of the contention of the respondent, the problem which confronts us lies in determining whether or not the act under which the respondent district was created provides for the organization of a district which is in its nature a public corporation, the inhabitants and property owners of which are subject to taxation for municipal purposes without any hearing as to the benefits to be derived from the creation and conduct of such a corporation, or is an assessment district created for the primary purpose of assessing upon private lands the benefits to be derived thereby from the public improvements for which purpose the district is formed. (*Miller & Lux v. Board of Supervisors, supra,* p. 267.)

(5) The purposes for which the Orosi District was formed, the appellant contends, are not municipal, and a district formed for such purposes does not possess the essential characteristics of a municipal corporation. If the authorities cited by him were strictly in point, there would be an end to the controversy; but they are not. They deal with questions arising in connection with districts formed for the purpose of draining, irrigating, reclaiming, or otherwise directly benefiting the lands affected thereby. (*People v. Reclamation Dist. No. 551,* 117 Cal. 114, 121 [48 Pac. 1016]; *People v. Levee Dist. No. 6,* 31 Cal. 30, 34 [63 Pac. 676]; *People v. Sacramento Drainage Dist.,* 155 Cal. 373, 382 [103 Pac. 207]; *Pixley v. Saunders,* 168 Cal. 152,

160 [141 Pac. 815]; *In re Werner,* 129 Cal. 567, 572 [62 Pac. 97].) When ***53** related to that class of districts, the cases cited are clearly in point. The improvements contemplated by the acts under which they were formed cannot be considered "municipal purposes." (*In re Madera Irr. Dist.,* 92 Cal. 296, 344 [27 Am. St. Rep. 106, 14 L. R. A. 755, 28 Pac. 675] [on rehearing].) One of the distinguishing features of such districts is that they are created for the purpose, generally, of some special local improvement, and may exercise only such powers as may be conferred by the legislature in the line of the object of their creation. They are merely special state organizations for state purposes, created to perform certain work which the policy of the state requires or permits to be done, and to which the state has given a certain degree of discretion in making the improvements contemplated. The other distinguishing feature is that the exactions which such districts may enforce in order to carry out their purposes are in the nature of assessments or taxes for local benefits, to be spread on the property in the districts in proportion to the peculiar advantage accruing to each parcel from the improvement. (*Pasadena Park Imp. Co. v. Lelande,* 175 Cal. 511, 512 [166 Pac. 341].) Such an exaction is generally in the form of a special assessment, but even if it is in the form of a tax it is nevertheless an assessment for local benefits. (*City of San Diego v. Linda Vista Irr. Dist.,* 108 Cal. 189, 199 [41 Pac. 291].)

Districts of the nature just discussed are not municipal corporations in the contemplation of the constitution. (*People v. Sacramento Drainage Dist., supra,* p. 382; *Reclamation Dist. No. 551 v. County of Sacramento,* 134 Cal. 477, 478 [66 Pac. 668].)

(6) But the provision in article XI, section 6, that "corporations for municipal purposes shall not be created by special laws" does not imply that the legislature must, by any general law, provide a plan in which shall be prescribed the mode under which all municipal corporations must be organized and the powers they can exercise. Of interest in this connection is the language of the court in *In re Madera Irr. Dist.,* 92 Cal. 296 [27 Am. St. Rep. 106, 14 L. R. A. 755, 28 Pac. 272], where, at page 317, it says: "Such corporations are but the agents or representatives of the state in the particular locality in which they exist. They are organized for the purpose of carrying out the purposes of the legislature in its desire to provide ***54** for the general welfare of the state, and in the accomplishment of which legislative convenience or constitutional requirements have made them essential. Although in this state the legislature is required to provide such agencies under general laws, it is authorized, under its general power of legislation, to invest such corporations, when created, with the same powers which, without such restriction, it could itself have exercised; and in providing for such organizations it need confer upon them only such powers as, in its judgment, are proper to be exercised by them in the discharge of the particular functions of government which may be conferred upon them. Being the representatives of the legislature in the various localities of the state, the requirements for organization, as well as the powers to be exercised, vary with the character of the purpose for which they may be created. Hence the general laws which the legislature may enact for the organization of public corporations may be as numerous as the objects for which such corporations may be created. For each of these objects the law is the same, but there would be a manifest impropriety in requiring that the organization of a levee district or an irrigation district should be conducted in the same manner as the organization of a corporation for the management of a public park or the control of the school department. Whether the districts to which such general laws are applicable, or in which the people thereof may avail themselves of the privilege conferred, be many or few, is immaterial. Even if there be but a single district to which the law is applicable, at the time of its enactment, the legislature would be justified, under its legislative power, to pass general laws in making such provision for that district. Whenever a special district of the state requires special legislation therefor, it is competent for the legislature, by general law, to authorize the organization of such district into a public corporation, with such powers of government as it may choose to confer upon it. It is not necessary that such public corporation should be vested with all governmental powers, but the legislature may clothe it with such as, in its judgment, are proper to be exercised within and for the benefit of such district. Being created for the purpose of discharging only one public purpose, it is not requisite that it have power not necessary therefor, or which would be appropriate to a ***55** corporation organized for some other purpose. Neither is it requisite that such corporation should have legislative or judicial powers conferred upon it. It may be organized for the mere purpose of exercising executive and administrative functions, with the added power of making such prudential rules and regulations as may be necessary for the exercise of the particular functions entrusted to its charge."

(7) With this power of the legislature understood, the nature of the districts contemplated by the act under which the Orosi Public Utility District was created is more clearly discerned. In 1911 the constitution of California was amended to provide that "any municipal corporation may establish and operate public works for supplying its inhabitants with light, water, power, heat, transportation, telephone service, or other means of communication. Such works may be acquired by original construction, or by the purchase of existing works, including their franchises, or both." (Const., art XI, sec. 19.) The amended section is radically different from the one it replaced. In the statement of legislative reasons for the adoption of the amendment, printed and transmitted to the voters by the Secretary of State, it is stated that the conditions which prevailed in this state with regard to the operation of public utilities in cities at the time of the adoption of the new constitution of 1879 had materially changed, and an entirely new situation existed regarding the subject to which the section related. "The proposed amendment," the statement continues, "is designed to provide for conditions as they now are, and as they will doubtless continue to be in the future." After a discussion of the situation arising during the period following 1879, and a declaration that the result "has been a distinct disappointment, like many other attempts to remedy economic conditions by force of statutes, … the true remedy, so far as any substantial benefit to the people is concerned," the statement declares, "is to encourage the furnishing of these public necessities by municipal corporations themselves." The adoption of the amendment definitely settled and removed all doubt from the question of the right of cities and towns to own and operate the kind of public utilities designated by the constitution.

(8) In enacting the statute here in question, the legislature has made provision whereby the inhabitants of the state living outside the limits of cities and ***56** towns may serve their own purposes through the operation of the same kind of utilities, when organized for that purpose.

That such was the intention of the legislature may be gleaned from a reading of the provision declaring the purposes for which public utility districts may be created in unincorporated territory. They are the acquisition, construction, and use of works for supplying the inhabitants of the district with light, water, power, heat, transportation, telephone service, or other means of communication, or means for the disposition of garbage, sewage, or refuse matter. It has the power to do all things necessary or convenient to the full exercise of the powers granted by the act. It is significant that, when the legislature came to pass the act extending to the inhabitants outside of incorporated cities and towns the privileges in regard to the acquisition and use of their own public utilities that are granted by the state constitution to municipalities, it should have followed so closely the language of the constitutional amendment of 1911 in the statement of the purposes for which the districts may be created. We are convinced that it was its intention to provide for the creation of public corporations of a *quasi*-municipal character, with power to carry on the particular functions committed to them.

"A city or purely municipal corporation is perhaps the highest type of corporation created for municipal purposes, because it is a miniature government, having legislative, executive and judicial powers, but there is another class of corporation, such as counties, school districts, road districts, etc., which, though varying in application and peculiar features, are but so many agencies or instrumentalities of the state to promote the convenience of the public at large, and are, in the broadest use of the term, for municipal purposes." (*Cook v. Port of Portland,* 20 Or. 580, 583 [13 L. R. A. 533, 27 Pac. 263].)

(9) It is not necessary, therefore, that a district like the Orosi Public Utility District shall exercise all the powers of local self-government which usually pertain to municipal corporations. All that was required was that the legislature should vest them, when properly organized, with such governmental powers as in its judgment were necessary to be exercised and appropriate to carry out the purposes for which the districts may have ***57** been organized. (*In re Madera Irr. Dist., supra.*) It may enlarge or restrict their powers, direct the mode and manner of their exercise, and define what acts they may or may not perform. (*San Francisco v. Canavan,* 42 Cal. 541, 552.)

(10) The creation of municipal corporations does not have for its sole object the formation of political subdivisions of the state for governmental purposes, but there is also the association of the members of the particular community for the administration of their local business and affairs in matters largely outside of the sphere of government as such. (*Union Stone Co. v. Board of Freeholders of*

Hudson Co., 71 N. J. Eq. 657, 664 [65 Atl. 466, 469]. See, also, *Wilson v. Board of Trustees,* 133 Ill. 443, 464 [27 N. E. 203].) It is quite apparent to us that the legislature had in view such association of the people living in the outlying districts, when it enacted the statute providing for the formation of public utility districts in the unincorporated territory of the state. It thereby provided for the creation of public agencies or *quasi*-municipal corporations, the declared purpose of the act being to extend to the inhabitants of such districts, when properly organized, advantages in the use and benefit of certain utilities which they might not be able to obtain in any other way, and which, from common experience, we know tend to promote the general welfare of the people of the state. That it had the power to do so cannot be denied. While the proposed constitutional amendment was pending in 1911, this court held that there was no provision in the state constitution which either expressly or by implication forbade the acquisition, ownership, or operation of public utilities by a municipality, or which prohibited the legislature from granting a municipality the power to acquire, own, and operate them. (*Clark v. Los Angeles,* 160 Cal. 30, 46 [116 Pac. 722].) Activities, once regarded as being of a strictly private nature, are now considered municipal affairs, e. g., the sale and distribution of electrical energy manufactured by a city, the supplying of water to its own inhabitants or to outside territory, the construction of a reservoir by a city on its own land and to be used for the benefit of its inhabitants, and the establishment and operation of transportation service. (*Los Angeles G. & E. Corp. v. Los Angeles,* 188 Cal. 307, 317 [205 Pac. 125]; *Heilbron v. Sumner,* 186 Cal. 648, 651 [200 Pac. 409]; ***58** *South Pasadena v. Pasadena Land & Water Co.,* 152 Cal. 579, 594 [93 Pac. 490]; *Williams v. City of Vallejo,* 36 Cal. App. 133, 139 [171 Pac. 834]; *United Railroads v. San Francisco,* 249 U. S. 517, 520 [63 L. Ed. 739, 39 Sup. Ct. Rep. 361, see, also, Rose's U. S. Notes Supp.].) The people of the state, by the amendment to the constitution, placed other public utilities in the same category.

(11) We take it to be now a generally accepted proposition that, while a municipality, which undertakes to supply those of its inhabitants who will pay therefor with utilities and facilities of urban life, is performing a function not governmental, but more often committed to private corporations or persons with whom it may come into competition, it is, in fact, engaging in business upon municipal capital, and for municipal purposes. (28 Cyc. 125.) Any tax, therefore, levied and collected for the purpose of supplying such municipal capital is not a tax or assessment on property directly benefited by the construction of some local improvement, but is a general tax levied just as, and for the same purpose that, any general municipal tax is imposed for carrying on the governmental functions and utilitarian objects of duly incorporated cities or towns.

The conclusion we have reached, on the general consideration of the act under which the respondent district was formed, is confirmed by an examination of the provision of the statute relating to the necessary revenue for conducting the affairs of such public corporations. It is provided (section 38) that only revenue-producing utilities shall be acquired, owned, or operated, "the intention being … that each public utility owned and operated by the district shall be self-sustaining." To that end, it is provided that, so far as possible, the board of directors shall fix such charges for commodities or service furnished by its revenue-producing utilities as will pay the administrative expenses of the government of the district, the operating cost of the utilities, the interest on any bonded indebtedness, and, in addition, provide a sinking fund for the retirement of the principal of the debt, and an appropriate fund for repairs, replacements and betterments. These provisions clearly establish the contention that the essential purpose of the act is to form a *quasi*-municipal corporation which may acquire and operate public utilities and pay for their operation from ***59** rates to be paid by those enjoying the service. When the cost of any public utility to be acquired, completed, or constructed can be paid out of the revenues of the district derived from the operation of its public utilities, in addition to the other necessary expenses of the district, the board of directors must determine the cost of such utility, the method and manner of payment therefor, and submit the question of its acquisition upon such terms to the electors. If the cost cannot be met in that way, a district bonded indebtedness may be incurred in the manner provided by the act. It is only when the revenues of the district shall be inadequate to pay the principal or interest of any bonded debt, as it becomes due, that the board of directors must, or, when funds are needed to carry out the objects and purposes of the district which cannot be provided for out of its revenues, that the board of directors may levy a tax for such purposes (section 39). These provisions make it clear that the "primary purpose" of the act (*Miller & Lux v. Board of Supervisors, supra*) was

not that of assessing upon private lands the benefits to be derived from the acquisition of public utilities.

(12) From our conclusion that the act, under which the respondent district was created, provides for the formation of a public or *quasi*-municipal corporation, the inhabitants and property owners of which are subject to tax by the district for municipal purposes only, it follows that the attack here made on the constitutionality of the act must fail. The public utility districts provided for by its terms have as their sole purpose the welfare and prosperity of the people of the state—matters which rest within the will of the people themselves. In *People v. Town of Ontario,* 148 Cal. 625 [84 Pac. 205], this court considered the constitutionality of the act providing for the annexation of territory to incorporated towns and cities. (Stats. 1889, p. 358.) By the terms of the act, upon receipt of a proper petition, signed by the requisite number of electors of the municipality and exactly describing the territory desired to be annexed, the legislative body of the municipality is compelled to submit the question of annexation to the electors of the town, and also to those of the outside territory. No notice, or opportunity to be heard on the question, is afforded residents or property owners of either the town or the territory ***60** which it is proposed to annex, and the legislative body has no power to change or fix the boundaries. The sole question whether or not the exact territory described in the petition shall be annexed and thereby subjected to the burden of taxation for municipal purposes is made to depend entirely upon an affirmative vote of the electors at the election called for the purpose. That is the exact situation as to the boundaries of public utility districts in unincorporated territory, created under the act as it was when the respondent district was formed. The court pointed out the "obvious distinction" between those acts practically authorizing property owners, without notice, to place burdens upon the property of others for the sole purpose of improving their own property, and one providing for the formation of municipalities. It held that, as the legislature cannot itself declare the precise boundaries of a municipality, for it can act in such matter only by general laws, it might, in the absence of any constitutional inhibition, confer that power on the electors of the district to be affected, such declaration to be made at an election held after due notice. (See, also, *People ex rel. Rhodes v. Fleming,* 10 Colo. 553 [16 Pac. 298]; *Ford v. North Des Moines,* 80 Iowa, 626 [45 N. W. 1031].) The constitution does not attempt to limit the power of the legislature in providing for the determination of the question as to what shall constitute municipal territory. Consequently, in the matter of forming cities or towns, questions as to population, extent, and character of territory to be included are matters left entirely with the legislative department. (*People ex rel. Russell v. Town of Loyalton,* 147 Cal. 774, 778 [82 Pac. 620].)

(13) In the instant case the district has been formed within the strict letter of the law, and in the manner provided by the legislative enactment. We have been cited to no authorities which hold that the requirement as to due process of law gives a property owner an absolute right to notice and hearing before his property may be included within the limits of a municipality or a *quasi*-municipal corporation, by reason of the creation of which his property will be subjected only to the burden of a general tax for the purposes for which the district was formed, in contradistinction to a tax or assessment for some local benefit. Appellant was not, therefore, entitled to notice and opportunity to be ***61** heard on the question of benefits to his land before it could be included within the boundaries of the respondent district. The act under which it was formed directs that in the event it becomes necessary to levy a tax for carrying out the objects and purposes of the district, the board of directors may, by ordinance, provide the manner and mode of assessing, and of correcting and equalizing assessments upon, the taxable property situated within the district, and may provide for the collection of delinquent taxes by actions or legal proceedings, *provided* that the provisions of such ordinance shall be conformable to general law, or it may accept the assessment for district purposes made by the county assessor (section 39). Whatever may be the method of assessment that shall be adopted, if provision be made for the correction of errors committed by the assessor, through a board of revision or equalization, with power to hear, after notice, complaints respecting the justice of the assessment, the proceeding by which the valuation is determined, though it may be followed, if the tax is not paid, by a sale of the delinquent's property, is due process of law. (*Hagar v. Reclamation Dist. No. 108,* 111 U. S. 701, 710 [28 L. Ed. 569, 4 Sup. Ct. Rep. 663, see, also, Rose's U. S. Notes]; *Fallbrook Irr. Dist. v. Bradley, supra,* at p. 175; *People v. Town of Ontario, supra,* at p. 633.)

We deem it unnecessary to further discuss the decisions of this court and those of other jurisdictions so strongly relied on by appellant. Many of them have already been

referred to and their distinguishing features pointed out. We have carefully examined every one of them, and many others, and have not found one that is exactly in point. The reason for the dearth of precise judicial decision on the important question we have been called on to decide in this case is that public utility districts are new to the law of California, and the furnishing of what may be called public utility service is an extension of municipal functions of comparatively recent times. After a critical study of the authorities, we have found nothing that destroys our confidence in the conclusion we have reached in this case. The case cited by appellant, and which, on first reading, seems nearest in point to the question here involved (*People ex rel. Amestoy Estate Co. v. Van Nuys Lighting Dist.,* 173 Cal. 792 [Ann. Cas. ***62** 1918D, 255, 162 Pac. 97]), is readily distinguishable on the facts given by the court as the foundation for its decision.

The judgment of the lower court is affirmed.

Myers, C. J., Seawell, J., Richards, J., Shenk, J., Lawlor, J., and Lennon, J., concurred.

179 Cal. 605, 178 P. 505

WILLIAM HENRY KELLAR,
Guardian, etc., Appellant,
v.
CITY OF LOS ANGELES et al., Respondents.

Supreme Court of California.
L. A. No. 4294.
January 28, 1919.

MUNICIPAL CORPORATIONS—PERSONAL INJURIES—NEGLIGENCE OF SERVANTS—LIABILITY.
A municipal corporation, in the absence of a statute imposing the liability, is not liable for personal injuries due to the negligence of the corporation's officers and employees, unless the negligence was in the matter of the exercise of functions private and proprietary in their nature as distinguished from functions purely governmental in nature.

ID.—MAINTENANCE OF SUMMER CAMP FOR CITY CHILDREN—GOVERNMENTAL FUNCTION— INJURIES TO INMATE—NEGLIGENCE OF SERVANTS—NONLIABILITY OF CITY.
A municipal corporation in conducting under authorization of certain provisions of its charter a summer camp outside the corporation's limits, for the purpose of giving the children of the city a vacation at certain prescribed charges to be paid by them to the city, is engaged purely in the exercise of its governmental function of maintaining the health of the children of the city, and is not liable for injuries accruing to a minor by reason of the negligence of its servants in the matter of caring for such minor after he had accidentally been injured while an inmate of such camp.

ID.—LOCATION OF SUMMER CAMP—CHARGE FOR PRIVILEGES—NATURE OF FUNCTION NOT CHANGED.
There is no material difference between a children's playground established and maintained by the city within the city limits and a summer camp for the children of the city established without such limits, in so far as the liability of the city for the negligent acts of its servants is concerned, nor does the fact that a small charge is made for the privileges of the camp change the situation.

ID.—MAINTENANCE OF CHILDREN'S PLAYGROUNDS—GOVERNMENTAL FUNCTION.
Children's playgrounds and recreation centers established and maintained by a city for the general use of the children of the city, where so conducted as to partake in no degree of the nature of a private business enterprise, do not substantially differ from a public park in so far as the question of liability of the city for personal injuries due to the negligence of its servants are concerned, since, like such parks, they are referable solely to the duty of maintaining the public health, and have nothing of the nature of an ordinary business enterprise.

ID.—CITY OF LOS ANGELES—MAINTENANCE OF SUMMER CAMP FOR CHILDREN—PRIVATE CAPACITY—CHARTER.
The city of Los Angeles is not authorized by its charter to maintain a summer camp for the children of the city in any proprietary or private capacity.

APPEAL from a judgment of the Superior Court of Los Angeles County. Frank G. Finlayson, Judge. Affirmed.

The facts are stated in the opinion of the court.

***606** C. Ibeson Sweet, for Appellant.
Albert Lee Stephens, City Attorney, Wm. P. Mealey, Deputy City Attorney, and Wm. D. Spaulding, Deputy City Attorney, for Respondents.

***607** ANGELLOTTI, C. J.

This is an appeal from a judgment entered in favor of the defendants upon sustaining their demurrer to plaintiff's third amended complaint. The only question presented by the briefs is as to the liability of the city of Los Angeles upon the facts stated in the complaint. It was sought by the action to hold the city liable for injuries accruing to the minor, a boy sixteen years of age, by reason of the alleged negligence of its officers and employees in the matter of caring for him after he had accidentally been injured while

an inmate of a summer camp maintained by the city, through its board of playground commissioners, in the San Bernardino Mountains, "for the purpose of giving any children of said city, at certain prescribed charges to be paid by said children to said city, a vacation with care, board and lodging at said camp." The boy had gone to the camp under an agreement by which, in consideration of $3.75 per week to be paid by him, he was to be received and cared for, boarded and lodged for two consecutive weeks. While there he accidentally fell and broke his arm. The alleged negligence was a failure to provide necessary care and attention in view of his injury, occasioning, it is alleged, very serious results.

It is thoroughly settled in this state that in the absence of a statute imposing the liability, a municipality is not liable on account of acts such as those here complained of, unless the negligence was in the matter of the exercise of functions private and proprietary in their nature as distinguished from functions purely governmental in nature. We have no statute imposing any such liability. There thus arises the question whether the city, in the operation of this summer camp, was acting in its governmental capacity, or in a private and proprietary capacity. The decisions, both of this court and of the courts of last resort in other jurisdictions, show that it is not always an easy matter to determine in which of these capacities a city is acting, and that it is extremely difficult, if indeed not impossible, to prescribe the test so exactly by general rule as to always clearly show to which class a particular activity of a municipality belongs.

The summer camp was conducted by the city under authorization of certain provisions of its charter. It is provided therein that the city shall have power "to provide … and to establish, own, equip, maintain, conduct and operate libraries, ***608** readings rooms, … parks, playgrounds, gymnasiums, baths, public toilets …; also any and all buildings, establishments, institutions and places, whether situated inside or outside of the city limits, which are necessary or convenient for the transaction of public business or for promoting the health, morals, education or welfare of the inhabitants of the city, or for their amusement, recreation, entertainment or benefit." (Charter, subd. 4, sec. 2, art. I.) In article XXVI of the charter, entitled "Playground Department," we find section 263, establishing a department of government, to be known as the playground department, under the management and control of a board of five commissioners, to be known as the board of playground commissioners. Section 267, contained in this article, provides: "All children's playgrounds, recreation centers and summer camps now or hereafter owned or controlled by the City of Los Angeles, either within or without its limits, shall be under the exclusive control and management of the Board of Playground Commissioners." Other sections of the article provide for the acceptance and use in acquiring, establishing, improving and maintaining of playgrounds, which, of course, includes children's recreation centers and summer camps, donations, legacies and bequests given for those purposes, and also that the city council may appropriate annually such amount as may be necessary therefor.

It seems to us that the function in which the city was thus engaged was purely in the exercise of the governmental power and the discharge of the governmental duty of maintaining the health of the children of the city, and was, therefore, essentially governmental in nature. It will not be questioned that a city is charged with such a duty of sovereignty as that of maintaining the public health, and that in any measures it may adopt solely for that purpose which are reasonably adapted to that end, it is acting strictly in a governmental capacity. In this connection certain language in the prevailing opinion in our recent decision in *Chafor v. City of Long Beach,* 174 Cal. 478, 487, [Ann. Cas. 1918D, 106, L. R. A. 1917E, 685, 163 Pac. 670], is in point. It was said: "Nor is it difficult to set forth the definition of governmental functions as applied to a city. Under the theory of the common law, that the municipality is protected from liability only ***609** while exercising the delegated functions of sovereignty, the governmental powers of a city are those pertaining to the making and enforcing of police regulations, to prevent crime, to preserve the public health, to prevent fires, the caring for the poor, and the education of the young; and in the performance of these functions all buildings and instrumentalities connected therewith come under the application of the principle."

Children's playgrounds and recreation centers established and maintained by a city for the general use of the children of the city, where so conducted as to partake in no degree of the nature of a private business enterprise, do not substantially differ from a public park in so far as the question here involved is concerned. Like the public parks, they are referable solely to the duty of maintaining the public health, and have nothing of the nature of an

ordinary business enterprise. While our attention has not been called to any decision of this court expressly deciding the question, it is clear, as was held in *Harper v. City of Topeka,* 92 Kan. 11, [51 L. R. A. (N. S.) 1032, 139 Pac. 1018], that the maintenance of a park by a city for the sole benefit of the public, and not for any profit or benefit to the municipal corporation, is a governmental or public function. (See, also, *Hibbard v. City of Wichita,* 98 Kan. 498, [L. R. A. 1917A, 399, 159 Pac. 399]; *Board of Park Commissioners v. Prinz,* 127 Ky. 460, [105 S. W. 948]; *Mayor etc. of Nashville v. Burns,* 131 Tenn. 281, [L. R. A. 1915D, 1108, 174 S. W. 1111]; *Nelson v. City of Spokane,* 104 Wash. 219, [176 Pac. 149]; *Blair v. Grainger,* 24 R. I. 17, [51 Atl. 1042].) As said in *Board of Park Commissioners v. Prinz,* 127 Ky. 460, [105 S. W. 948]: "They are essentially public places established for purely public purposes." In so far as any question here involved is concerned, there is no material difference between a children's playground established and maintained by the city within the city limits and the summer camp for the children of the city established without the city limits in the mountain region some distance therefrom. It is substantially in the nature of a children's playground for the benefit of the children of the city, located as it is for the purpose of giving the children the advantages of recreation under different conditions from those existing in the city. By reason of its remoteness from the city it is essential to its enjoyment by the children that board and lodging be furnished to those enjoying ***610** the privileges thus afforded. This in no degree changes its nature. It rests on precisely the same basis as children's playgrounds and public parks within the city limits. It is conducted for the sole purpose of promoting the public interest by maintaining the public health, and has nothing of the character of a business enterprise. That a small charge is made upon those children going to and staying at the camp for the purpose of assisting in defraying the cost of maintenance of such children while at the camp does not change the situation. (See *Denning v. State,* 123 Cal. 316, [55 Pac. 1000]; *Melvin v. State,* 121 Cal. 16, 22, [53 Pac. 416]; *Blair v. Grainger,* 24 R. I. 17, [51 Atl. 1042].)

It may further be said that we do not think that the city of Los Angeles is authorized by its charter to maintain such an institution as this summer camp in any proprietary or private capacity. Any fair, reasonable, substantial doubt concerning the existence of power in a municipality as to such a matter as this must be resolved by courts against the municipality. (Dillon on Municipal Corporations, secs. 237, 239.) As we read subdivision 4 of section 2 of article I of the charter, it has to do with power granted for the purpose of the exercise of governmental functions alone. This is the result of a fair reading of the provision, and consideration of other subdivisions of the same section specifying matters in the nature of business enterprises in which the city may engage shows the correctness of this construction. Where it was thought advisable to confer a power as to any such matter it was carefully and specifically prescribed. And in subdivision 50 of the section, added by amendment in 1913, conferring most sweeping general power as to such matters, it was expressly provided "that under the authorization of this subdivision the City of Los Angeles shall not engage in any purely commercial or industrial enterprise not now engaged in by the city, except on the approval of a majority of the electors voting thereon at an election." It is not suggested that there was any provision for a summer camp prior to the adoption of this provision, or that the electors have ever authorized the maintenance of any institution of the nature of this summer camp, except as the same is authorized as a governmental function by subdivision 4 of the section.

***611** In view of what we have said, we are of the opinion that there is no liability on the part of the city of Los Angeles on account of the matters alleged in the complaint.

The judgment is affirmed.

Sloss, J., Richards, J., *pro tem.,* Wilbur, J., Shaw, J., and Melvin, J., concurred.

KeyCite Yellow Flag - Negative Treatment
Declined to Extend by Bircoll v. Miami-Dade County, 11th Cir.(Fla.), March 7, 2007

118 S.Ct. 1952
Supreme Court of the United States

PENNSYLVANIA DEPARTMENT OF CORRECTIONS, et al., Petitioners,
v.
Ronald R. YESKEY.

No. 97–634.
|
Argued April 28, 1998.
|
Decided June 15, 1998.

Synopsis
State prison inmate, who was denied admission to prison boot camp program due to history of hypertension, sued Pennsylvania Department of Corrections and several officials under the Americans With Disabilities Act (ADA). The United States District Court for the Middle District of Pennsylvania, William W. Caldwell, J., dismissed for failure to state a claim, and inmate appealed. The Court of Appeals for the Third Circuit, 118 F.3d 168, reversed and remanded. Certiorari was granted. The Supreme Court, Justice Scalia, held that Title II of the ADA, prohibiting "public entity" from discriminating against "qualified individual with a disability" on account of that individual's disability, applied to inmates in state prisons.

Court of Appeals affirmed.

West Headnotes (6)

[1] Civil Rights
Prisons

ADA's Title II, prohibiting "public entity" from discriminating against "qualified individual with a disability" on account of that individual's disability, covered inmates in state prisons, thus allowing state inmate to maintain ADA claim based on his exclusion, for health reasons, from prison boot camp program, the successful completion of which would have led to his early release; text of ADA was not ambiguous, and it unmistakeably included state prisons and prisoners within its coverage. Americans with Disabilities Act of 1990, §§ 201(1)(B), 202, 42 U.S.C.A. §§ 12131(1)(B), 12132; 61 P.S. § 1123.

1555 Cases that cite this headnote

[2] Statutes
What constitutes ambiguity;how determined

Fact that statute can be applied in situations not expressly anticipated by Congress does not demonstrate ambiguity, but, rather, it demonstrates breadth.

65 Cases that cite this headnote

[3] Constitutional Law
Avoidance of doubt

Doctrine of constitutional doubt, requiring court to interpret statutes to avoid grave and doubtful constitutional questions, enters in only where statute is susceptible of two constructions.

7 Cases that cite this headnote

[4] Statutes
Titles, headings, and captions

Title of statute cannot limit plain meaning of the text; for interpretive purposes, it is of use only when it sheds light on some ambiguous word or phrase.

142 Cases that cite this headnote

[5] Federal Courts
Presentation of Questions Below or on Review;Record;Waiver

Supreme Court would not address whether application of ADA to state prisons was constitutional exercise of Congress's power under Commerce Clause or under Fourteenth Amendment enforcement clause, where petitioners raised question in their brief,

but it was addressed by neither the district court nor the Court of Appeals. U.S.C.A. Const. Art. 1, § 8, cl. 3; Amend. 14, § 5; Americans with Disabilities Act of 1990, §§ 201, 202, 42 U.S.C.A. §§ 12131, 12132.

426 Cases that cite this headnote

[6] **Federal Courts**
Presentation of Questions Below or on Review;Record;Waiver

Where issues are neither raised before nor considered by Court of Appeals, Supreme Court will not ordinarily consider them.

7 Cases that cite this headnote

**1953 *206 *Syllabus* *

Respondent Yeskey was sentenced to 18 to 36 months in a Pennsylvania correctional facility, but was recommended for placement in a Motivational Boot Camp for first-time offenders, the successful completion of which would have led to his parole in just six months. When he was refused admission because of his medical history of hypertension, he sued petitioners, Pennsylvania's Department of Corrections and several officials, alleging that the exclusion violated the Americans with Disabilities Act of 1990 (ADA), Title II of which prohibits a "public entity" from discriminating against a " qualified individual with a disability" on account of that disability, 42 U.S.C. § 12132. The District Court dismissed for failure to state a claim, holding the ADA inapplicable to state prison inmates, but the Third Circuit reversed.

Held: State prisons fall squarely within Title II's statutory definition of "public entity," which includes "any ... instrumentality of a State ... or local government." § 12131(1)(B). Unlike the situation that obtained in *Gregory v. Ashcroft,* 501 U.S. 452, 111 S.Ct. 2395, 115 L.Ed.2d 410, there is no ambiguous exception that renders the coverage uncertain. For that reason the plain-statement requirement articulated in *Gregory,* if applicable to federal intrusion upon the administration of state prisons, has been met. Petitioners' attempts to derive an intent not to cover prisons from the statutory references to the "benefits" of programs and to "qualified individual" are rejected; some prison programs, such as this one, have benefits and are restricted to qualified inmates. The statute's lack of ambiguity also requires rejection of petitioners' appeal to the doctrine of constitutional doubt. The Court does not address the issue whether applying the ADA to state prisons is a constitutional exercise of Congress's power under either the Commerce Clause or the Fourteenth Amendment because it was addressed by neither of the lower courts. Pp. 1954–1956.

118 F.3d 168, affirmed.

SCALIA, J., delivered the opinion for a unanimous Court.

Attorneys and Law Firms

***207** Paul A. Tufano, Harrisburg, PA, for petitioner.

Donald Specter, Washington, DC, for respondent.

Irving L. Gornstein, Washington, DC, for U.S. as amicus curiae, by special leave of Court.

Opinion

***208** Justice SCALIA delivered the opinion of the Court.

[1] The question before us is whether Title II of the Americans with Disabilities Act of 1990 (ADA), 104 Stat. 337, 42 U.S.C. § 12131 *et seq.,* which prohibits a "public entity" from discriminating against a "qualified individual with a disability" on account of that individual's disability, see § 12132, covers inmates in state prisons. Respondent Ronald Yeskey was such an inmate, sentenced in May 1994 to serve 18 to 36 months in a Pennsylvania correctional facility. The sentencing court recommended that he be placed in Pennsylvania's Motivational Boot Camp for first-time offenders, the successful completion of which would have led to his release on parole in just six months. See Pa. Stat. Ann., Tit. 61, § 1121 *et seq.* (Purdon Supp.1998). Because of his medical history of hypertension, however, he was refused admission. He filed this suit against petitioners, the Commonwealth of Pennsylvania's Department of Corrections and several department officials, alleging that his exclusion from the Boot Camp violated the ADA. The District Court dismissed for failure to state a claim, Fed. Rule Civ. Proc. 12(b)(6), holding the ADA inapplicable to inmates in state prisons; the Third Circuit reversed, 118 F.3d 168 (1997);

we granted certiorari, 522 U.S. 1086, 118 S.Ct. 876, 139 L.Ed.2d 865 (1998).

Petitioners argue that state prisoners are not covered by the ADA for the same reason we held in *Gregory v. Ashcroft,* 501 U.S. 452, 111 S.Ct. 2395, 115 L.Ed.2d 410 (1991), that state judges were not covered by the Age Discrimination in Employment Act of 1967 (ADEA), 29 U.S.C. § 621 *et seq. Gregory* relied on the canon of construction that absent an "unmistakably clear" expression of intent to "alter the usual constitutional balance between the ***209** States and the Federal Government," we will interpret a statute to preserve rather than destroy the States' "substantial sovereign powers." 501 U.S., at 460–461, 111 S.Ct., at 2400–2401 (citations and internal quotation marks omitted). It may well be that exercising ultimate control over the management of state prisons, like establishing the qualifications of state government officials, is a traditional and essential state function subject to the plain-statement rule of *Gregory.* "One of the primary functions of government," we have said, "is the preservation of societal order through enforcement of the criminal law, and the maintenance of penal institutions is an essential part of that task." *Procunier v. Martinez,* 416 U.S. 396, 412, 94 S.Ct. 1800, 1811, 40 L.Ed.2d 224 (1974), overruled on other grounds, *Thornburgh v. Abbott,* 490 U.S. 401, 414, 109 S.Ct. 1874, 1882, 104 L.Ed.2d 459 (1989). "It is difficult to imagine an activity in which a State has a stronger interest," *Preiser v. Rodriguez,* 411 U.S. 475, 491, 93 S.Ct. 1827, 1837, 36 L.Ed.2d 439 (1973).

Assuming, without deciding, that the plain-statement rule does govern application of the ADA to the administration of state prisons, we think the requirement of the rule is amply met: the statute's language unmistakably includes State prisons and prisoners within its coverage. The situation here is not comparable to that in *Gregory.* There, although the ADEA plainly covered state employees, it contained an exception for " 'appointee[s] on the policymaking level' " which made it impossible for us to "conclude that the statute plainly cover[ed] appointed state judges." 501 U.S., at 467, 111 S.Ct., at 2404. Here, the ADA plainly covers state institutions *without* any exception that could cast the coverage of prisons into doubt. Title II of the ADA provides:

> "Subject to the provisions of this subchapter, no qualified individual with a disability shall, by reason of such disability, be excluded from participation in or be denied the benefits of the services, programs, or activities of a public entity, or be subjected to discrimination by any such entity." 42 U.S.C. § 12132.

***210** State prisons fall squarely within the statutory definition of "public entity," which includes "any department, agency, special purpose district, or other instrumentality of a ****1955** State or States or local government." § 12131(1)(B).

Petitioners contend that the phrase "benefits of the services, programs, or activities of a public entity," § 12132, creates an ambiguity, because state prisons do not provide prisoners with "benefits" of "programs, services, or activities" as those terms are ordinarily understood. We disagree. Modern prisons provide inmates with many recreational "activities," medical "services," and educational and vocational "programs," all of which at least theoretically "benefit" the prisoners (and any of which disabled prisoners could be "excluded from participation in"). See *Block v. Rutherford,* 468 U.S. 576, 580, 104 S.Ct. 3227, 3229–3230, 82 L.Ed.2d 438 (1984) (referring to "contact visitation program"); *Hudson v. Palmer,* 468 U.S. 517, 552, 104 S.Ct. 3194, 3214, 82 L.Ed.2d 393 (1984) (discussing "rehabilitative programs and services"); *Olim v. Wakinekona,* 461 U.S. 238, 246, 103 S.Ct. 1741, 1745–1746, 75 L.Ed.2d 813 (1983) (referring to "appropriate correctional programs for all offenders"). Indeed, the statute establishing the Motivational Boot Camp at issue in this very case refers to it as a "program." Pa. Stat. Ann., Tit. 61, § 1123 (Purdon Supp.1998). The text of the ADA provides no basis for distinguishing these programs, services, and activities from those provided by public entities that are not prisons.

We also disagree with petitioners' contention that the term "qualified individual with a disability" is ambiguous insofar as concerns its application to state prisoners. The statute defines the term to include anyone with a disability

> "who, with or without reasonable modifications to rules, policies, or practices, the removal of architectural, communication, or transportation barriers, or the provision of auxiliary aids and services, meets the essential eligibility requirements for the receipt of services or the participation in programs or activities provided by a public entity." 42 U.S.C. § 12131(2).

***211** Petitioners argue that the words "eligibility" and "participation" imply voluntariness on the part of an

applicant who seeks a benefit from the State, and thus do not connote prisoners who are being held against their will. This is wrong on two counts: First, because the words do not connote voluntariness. See, *e.g.,* Webster's New International Dictionary 831 (2d ed. 1949) ("eligible": "Fitted or qualified to be chosen or elected; legally or morally suitable; as, an *eligible* candidate"); *id.,* at 1782 ("participate": "To have a share in common with others; to partake; share, as in a debate"). While "eligible" individuals "participate" voluntarily in many programs, services, and activities, there are others for which they are "eligible" in which "participation" is mandatory. A drug addict convicted of drug possession, for example, might, as part of his sentence, be required to "participate" in a drug treatment program for which only addicts are "eligible." And secondly, even if the words did connote voluntariness, it would still not be true that all prison "services," "programs," and "activities" are excluded from the ADA because participation in them is not voluntary. The prison law library, for example, is a service (and the use of it an activity), which prisoners are free to take or leave. Cf. *Gabel v. Lynaugh,* 835 F.2d 124, 125, n. 1 (C.A.5 1988) *(per curiam)* ("pro se civil rights litigation has become a recreational activity for state prisoners"). In the very case at hand, the governing law makes it clear that participation in the Boot Camp program is voluntary. See Pa. Stat. Ann., Tit. 61, § 1126(a) (Purdon Supp.1998) ("An eligible inmate may make an application to the motivational boot camp selection committee for permission to participate in the motivational boot camp program"); § 1126(c) ("[c]onditio[n]" of "participa [tion]" is that applicant "agree to be bound by" certain "terms and conditions").

[2] Finally, petitioners point out that the statute's statement of findings and purpose, 42 U.S.C. § 12101, does not mention prisons and prisoners. That is perhaps questionable, since the provision's reference to discrimination "in such critical ***212** areas as ... institutionalization," § 12101(a)(3), can be thought to include penal institutions. But assuming it to be true, and assuming further that it proves, as petitioners contend, that Congress did not "envisio[n] that the ADA would be applied to state prisoners," Brief for Petitioners ****1956** 13–14, in the context of an unambiguous statutory text that is irrelevant. As we have said before, the fact that a statute can be " 'applied in situations not expressly anticipated by Congress does not demonstrate ambiguity. It demonstrates breadth.' " *Sedima, S.P.R.L. v. Imrex Co.,* 473 U.S. 479, 499, 105 S.Ct. 3275, 3286, 87 L.Ed.2d 346 (1985) (citation omitted).

[3] **[4]** Our conclusion that the text of the ADA is not ambiguous causes us also to reject petitioners' appeal to the doctrine of constitutional doubt, which requires that we interpret statutes to avoid "grave and doubtful constitutional questions," *United States ex rel. Attorney General v. Delaware & Hudson Co.,* 213 U.S. 366, 408, 29 S.Ct. 527, 535–536, 53 L.Ed. 836 (1909). That doctrine enters in only "where a statute is susceptible of two constructions," *ibid.* And for the same reason we disregard petitioners' invocation of the statute's title, "Public Services," 104 Stat. 337. "[T]he title of a statute ... cannot limit the plain meaning of the text. For interpretive purposes, [it is] of use only when [it] shed[s] light on some ambiguous word or phrase." *Trainmen v. Baltimore & Ohio R. Co.,* 331 U.S. 519, 528–529, 67 S.Ct. 1387, 1392, 91 L.Ed. 1646 (1947).

[5] **[6]** We do not address another issue presented by petitioners: whether application of the ADA to state prisons is a constitutional exercise of Congress's power under either the Commerce Clause, compare *Printz v. United States,* 521 U.S. 898, 117 S.Ct. 2365, 138 L.Ed.2d 914 (1997), with *Garcia v. San Antonio Metropolitan Transit Authority,* 469 U.S. 528, 105 S.Ct. 1005, 83 L.Ed.2d 1016 (1985), or § 5 of the Fourteenth Amendment, see *City of Boerne v. Flores,* 521 U.S. 507, 117 S.Ct. 2157, 138 L.Ed.2d 624 (1997). Petitioners raise this question in their brief, see Brief for Petitioners 22–23, but it was addressed by neither the District Court nor the Court of Appeals, where petitioners raised only the *Gregory* plain-statement issue. "Where ***213** issues are neither raised before nor considered by the Court of Appeals, this Court will not ordinarily consider them." *Adickes v. S.H. Kress & Co.,* 398 U.S. 144, 147, n. 2, 90 S.Ct. 1598, 1602, n. 2, 26 L.Ed.2d 142 (1970) (citations omitted). See also *Dothard v. Rawlinson,* 433 U.S. 321, 323, n. 1, 97 S.Ct. 2720, 2724, n. 1, 53 L.Ed.2d 786 (1977); *Duignan v. United States,* 274 U.S. 195, 200, 47 S.Ct. 566, 568, 71 L.Ed. 996 (1927). We decline to do so here.

* * *

Because the plain text of Title II of the ADA unambiguously extends to state prison inmates, the judgment of the Court of Appeals is affirmed.

It is so ordered.

P 195, 98 Cal. Daily Op. Serv. 4562, 98 Daily Journal D.A.R. 6224, 98 CJ C.A.R. 3093, 11 Fla. L. Weekly Fed. S 640

All Citations

524 U.S. 206, 118 S.Ct. 1952, 141 L.Ed.2d 215, 163 A.L.R. Fed. 671, 66 USLW 4481, 8 A.D. Cases 201, 12 NDLR

Footnotes

* The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See *United States v. Detroit Timber & Lumber Co.,* 200 U.S. 321, 337, 26 S.Ct. 282, 287, 50 L.Ed. 499.

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117 S.Ct. 2100
Supreme Court of the United States

Daryll RICHARDSON and John Walker, Petitioners,
v.
Ronnie Lee McKNIGHT.

No. 96-318.
|
Argued March 19, 1997.
|
Decided June 23, 1997.

Synopsis

Inmate brought § 1983 action against two prison guards who were employees of private, for-profit corporation which had a contract with state to manage correctional center, alleging that restraints used on him by guards caused him serious injury which required hospitalization. The United States District Court for the Middle District of Tennessee, Thomas A. Higgins, J., found that guards were not entitled to qualified immunity from liability, and they appealed. The Court of Appeals for the Sixth Circuit, 88 F.3d 417, affirmed, and guards petitioned for certiorari. The Supreme Court, Justice Breyer, held that prison guards who are employees of a private prison management firm are not entitled to qualified immunity from suit by prisoners charging a violation of § 1983, considering that history does not reveal a firmly rooted tradition of immunity applicable to privately employed prison guards, and that immunity doctrine's purposes do not warrant immunity for private prison guards.

Affirmed.

Justice Scalia filed dissenting opinion in which Chief Justice Rehnquist and Justices Kennedy and Thomas joined.

West Headnotes (5)

[1] Civil Rights
Purpose and Construction in General

Section 1983 basically seeks to deter state actors from using the badge of their authority to deprive individuals of their federally guaranteed rights and to provide related relief. 42 U.S.C.A. § 1983.

24 Cases that cite this headnote

[2] Civil Rights
Private Persons or Corporations, in General

Section 1983, which imposes liability only where a person acts "under color" of a state "statute, ordinance, regulation, custom, or usage" can sometimes impose liability upon a private individual. 42 U.S.C.A. § 1983.

39 Cases that cite this headnote

[3] Civil Rights
Privilege or Immunity;Good Faith and Probable Cause

History and purposes that underlie government employee immunity determine whether private individuals enjoy qualified immunity from suit under § 1983. 42 U.S.C.A. § 1983.

223 Cases that cite this headnote

[4] Civil Rights
Privilege or Immunity;Good Faith and Probable Cause

Mere performance of a governmental function does not entitle private person to qualified immunity under § 1983, especially one who performs a job without government supervision or direction. 42 U.S.C.A. § 1983.

203 Cases that cite this headnote

[5] Civil Rights
Privilege or Immunity;Good Faith and Probable Cause

Civil Rights
Prisons, Jails, and Their Officers;Parole and Probation Officers

Prison guards who are employees of a private prison management firm are not entitled to qualified immunity from suit by prisoners charging a violation of § 1983, considering that history does not reveal a firmly rooted tradition of immunity applicable to privately employed prison guards, and that immunity doctrine's purposes do not warrant immunity for private prison guards. 42 U.S.C.A. § 1983.

282 Cases that cite this headnote

****2100** *Syllabus* [*]

Respondent McKnight, a prisoner at a Tennessee correctional center whose management had been privatized, filed this constitutional tort action under 42 U.S.C. § 1983 for physical injuries inflicted by petitioner prison guards. The District Court denied petitioners' motion to dismiss, finding that, since they were employed by a private prison management firm, they were not entitled to qualified immunity from § 1983 lawsuits. The Court of Appeals affirmed.

Held: Prison guards employed by a private firm are not entitled to a qualified immunity ****2101** from suit by prisoners charging a § 1983 violation. Pp. 2103-2108.

(a) Four aspects of *Wyatt v. Cole,* 504 U.S. 158, 112 S.Ct. 1827, 118 L.Ed.2d 504-in which this Court found no § 1983 immunity for private defendants charged with invoking state replevin, garnishment, and attachment statutes later declared unconstitutional-are instructive here. First, § 1983-which deters state actors from depriving individuals of their federally protected rights-can sometimes impose liability upon private individuals. Second, a distinction exists between an immunity from suit-which frees one from liability whether or not he acted wrongly-and other legal defenses-which may well involve the essence of the wrong. Third, history and the purposes underlying § 1983 immunity determine whether private defendants enjoy protection from suit. Fourth, the *Wyatt* holding was limited to the narrow question before the Court and is not applicable to *all* private individuals. Pp. 2103-2104.

(b) History does not reveal a firmly rooted tradition of immunity applicable to privately employed prison guards. While *government*-employed prison guards may have enjoyed a kind of immunity defense arising out of their status as public employees at common law, see *Procunier v. Navarette,* 434 U.S. 555, 561-562, 98 S.Ct. 855, 859-860, 55 L.Ed.2d 24, correctional functions have never been exclusively public. In the 19th century both private entities and government itself carried on prison management activities. There is no conclusive evidence of a historical tradition of immunity for private parties carrying out these functions. Pp. 2104-2105.

(c) The immunity doctrine's purposes also do not warrant immunity for private prison guards. Mere performance of a governmental function does not support immunity for a private person, especially one who ***400** performs a job without government supervision or direction. Petitioners' argument to the contrary overlooks certain important differences that are critical from an immunity perspective. First, the most important special government immunity-producing concern-protecting the public from unwarranted timidity on the part of public officials-is less likely present when a private company subject to competitive market pressures operates a prison. A firm whose guards are too aggressive will face damages that raise costs, thereby threatening its replacement by another contractor, but a firm whose guards are too timid will face replacement by firms with safer and more effective job records. Such marketplace pressures are present here, where the firm is systematically organized, performs independently, is statutorily obligated to carry insurance, and must renew its first contract after three years. And they provide the private firm with incentives to avoid overly timid job performance. To this extent, the employees differ from government employees, who act within a system that is responsible through elected officials to the voters and that is often characterized by civil service rules providing employee security but limiting the government departments' flexibility to reward or punish individual employees. Second, privatization helps to meet the immunity-related need to ensure that talented candidates are not deterred by the threat of damages suits from entering public service. Comprehensive insurance coverage increases the likelihood of employee indemnification and to that extent reduces the employment-discouraging fear of unwarranted liability. Since a private firm is also freed from many civil service restraints, it, unlike a government department, may offset increased employee liability risk with higher pay or extra benefits. Third, while lawsuits

may distract private employees from their duties, the risk of distraction alone cannot be sufficient grounds for an immunity. Tennessee, which has decided not to extend sovereign immunity to private prison operators, can, moreover, be understood to have anticipated a certain amount of distraction. Pp. 2105-2108.

(d) The Court closes with three caveats. First, the focus has been on § 1983 immunity, not liability. Second, the immunity question ****2102** has been answered narrowly, in the context in which it arose, and, thus, does not involve a private individual briefly associated with a government body, serving as an adjunct to government in an essential governmental activity, or acting under close official supervision. Third, no opinion is expressed on the issue whether petitioners might assert not immunity, but a special good-faith defense. Pp. 2107-2108.

88 F.3d 417, affirmed.

BREYER, J., delivered the opinion of the Court, in which STEVENS, O'CONNOR, SOUTER, and GINSBURG, JJ., joined. SCALIA, J., filed a dissentingopinion, ***401** in which REHNQUIST, C.J., and KENNEDY and THOMAS, JJ., joined, *post,* p. 2108.

Attorneys and Law Firms

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Opinion

Justice BREYER delivered the opinion of the Court.

The issue before us is whether prison guards who are employees of a private prison management firm are entitled to a qualified immunity from suit by prisoners charging a violation of 42 U.S.C. § 1983. We hold that they are not.

I

Ronnie Lee McKnight, a prisoner at Tennessee's South Central Correctional Center (SCCC), brought this federal constitutional tort action against two prison guards, Darryl Richardson and John Walker. He says the guards injured him by placing upon him extremely tight physical restraints, thereby unlawfully "subject[ing]" him "to the deprivation of" a right "secured by the Constitution" of the United States. Rev. Stat. § 1979, 42 U.S.C. § 1983. Richardson ***402** and Walker asserted a qualified immunity from § 1983 lawsuits, see *Harlow v. Fitzgerald,* 457 U.S. 800, 807, 102 S.Ct. 2727, 2732, 73 L.Ed.2d 396 (1982), and moved to dismiss the action. The District Court noted that Tennessee had "privatized" the management of a number of its correctional facilities, and that consequently a private firm, not the state government, employed the guards. See Tenn.Code Ann. § 41-24-101 *et seq.* (1990 and Supp.1996); see generally Cody & Bennett, The Privatization of Correctional Institutions: The Tennessee Experience, 40 Vand. L.Rev. 829 (1987) (outlining State's history with private correctional services). The court held that, because they worked for a private company rather than the government, the law did not grant the guards immunity from suit. It therefore denied the guards' motion to dismiss. The guards appealed to the Sixth Circuit. See *Mitchell v. Forsyth,* 472 U.S. 511, 530, 105 S.Ct. 2806, 2817-2818, 86 L.Ed.2d 411 (1985) (permitting interlocutory appeals of qualified immunity determinations); see also *Johnson v. Jones,* 515 U.S. 304, 115 S.Ct. 2151, 132 L.Ed.2d 238 (1995); *Behrens v. Pelletier,* 516 U.S. 299, 116 S.Ct. 834, 133 L.Ed.2d 773 (1996). That court also ruled against them. *McKnight v. Rees,* 88 F.3d 417, 425 (C.A.6 1996). The Court of Appeals conceded that other courts had reached varying conclusions about whether, or the extent to which, private sector defendants are entitled to immunities of the sort the law provides governmental defendants. See, *e.g., Eagon v. Elk City,* 72 F.3d 1480, 1489-1490 (C.A.10 1996); *Williams v. O'Leary,* 55 F.3d 320, 323-324 (C.A.7), cert. denied, 516 U.S. 993, 116 S.Ct. 527, 133 L.Ed.2d 434 (1995); *Frazier v. Bailey,* 957 F.2d 920, 928-929 (C.A.1 1992). But the court concluded, primarily for reasons of "public policy," that the privately employed prison guards were not entitled to the immunity provided their governmental counterparts. ****2103** 88 F.3d, at 425. We granted certiorari to review this holding. We now affirm.

II

A

We take the Court's recent case, *Wyatt v. Cole,* 504 U.S. 158, 112 S.Ct. 1827, 118 L.Ed.2d 504 (1992), as pertinent authority. The Court there considered whether private defendants, charged with § 1983 liabilityfor ***403** "invoking state replevin, garnishment, and attachment statutes" later declared unconstitutional were "entitled to qualified immunity from suit." *Id.,* at 159, 112 S.Ct., at 1827. It held that they were not. *Id.,* at 169, 112 S.Ct., at 1834. We find four aspects of *Wyatt* relevant here.

[1] **[2]** First, as *Wyatt* noted, § 1983 basically seeks "to deter *state* actors from using the badge of their authority to deprive individuals of their federally guaranteed rights" and to provide related relief. *Id.,* at 161, 112 S.Ct., at 1829-1830 (emphasis added) (citing *Carey v. Piphus,* 435 U.S. 247, 254-257, 98 S.Ct. 1042, 1047-1049, 55 L.Ed.2d 252 (1978)); see also *Owen v. Independence,* 445 U.S. 622, 654, 100 S.Ct. 1398, 1417, 63 L.Ed.2d 673 (1980). It imposes liability only where a person acts "under color" of a state "statute, ordinance, regulation, custom, or usage." 42 U.S.C. § 1983. Nonetheless, *Wyatt* reaffirmed that § 1983 can *sometimes* impose liability upon a private individual. 504 U.S., at 162, 112 S.Ct., at 1830; see also *Lugar v. Edmondson Oil Co.,* 457 U.S. 922, 924, 102 S.Ct. 2744, 2746-2747, 73 L.Ed.2d 482 (1982).

Second, *Wyatt* reiterated that after *Harlow, supra,* and this Court's reformulation of the qualified immunity doctrine, see *Anderson v. Creighton,* 483 U.S. 635, 645, 107 S.Ct. 3034, 3042, 97 L.Ed.2d 523 (1987), a distinction exists between an "immunity from suit" and other kinds of legal defenses. 504 U.S., at 166-167, 112 S.Ct., at 1832-1833; see also *Mitchell, supra,* at 526, 105 S.Ct., at 2815-2816. As the *Wyatt* concurrence pointed out, a legal defense may well involve "the essence of the wrong," while an immunity frees one who enjoys it from a lawsuit whether or not he acted wrongly. 504 U.S., at 171-172, 112 S.Ct., at 1835-1836 (Kennedy, J., concurring).

Third, *Wyatt* specified the legal source of § 1983 immunities. It pointed out that although § 1983 " 'creates a species of tort liability that on its face admits of no immunities,' " *id.,* at 163, 112 S.Ct., at 1831 (quoting *Imbler v. Pachtman,* 424 U.S. 409, 417, 96 S.Ct. 984, 989-990, 47 L.Ed.2d 128 (1976)), this Court has nonetheless accorded immunity where a

" 'tradition of immunity was so firmly rooted in the common law and was supported by such strong policy reasons that "Congress would have specifically so provided had it wished to abolish the doctrine." ' " 504 U.S., at 164, 112 S.Ct., at 1831 (quoting *Owen v. Independence, supra,* at 637, 100 S.Ct., at 1408-1409).

***404** *Wyatt* majority, in deciding whether or not the private defendants enjoyed immunity, looked both to history and to "the special policy concerns involved in suing government officials." 504 U.S., at 167, 112 S.Ct., at 1833; see also *Mitchell, supra,* at 526, 105 S.Ct., at 2815-2816; *Harlow, supra,* at 807, 102 S.Ct., at 2732; *Imbler v. Pachtman, supra,* at 424, 96 S.Ct., at 992. And in this respect-the relevant *sources* of the law-both the *Wyatt* concurrence and the dissent seemed to agree. Compare 504 U.S., at 169-171, 112 S.Ct., at 1834-1835 (KENNEDY, J., concurring) (existence of immunity depends upon "historical origins" and "public policy"), with *id.,* at 175-176, 112 S.Ct., at 1837-1838 (REHNQUIST, C.J., dissenting) ("immunity" recognized where "similarly situated defendant would have enjoyed an immunity at common law" or "when important public policy concerns suggest the need for an immunity").

Fourth, *Wyatt* did not consider its answer to the question before it as one applicable to *all* private individuals-irrespective of the nature of their relation to the government, ****2104** position, or the kind of liability at issue. Rather, *Wyatt* explicitly limited its holding to what it called a "narrow" question about "private persons ... who conspire with state officials," *id.,* at 168, 112 S.Ct., at 1834, and it answered that question by stating that private defendants "faced with § 1983 liability for invoking a state replevin, garnishment, or attachment statute" are *not* entitled to immunity, *id.,* at 168-169, 112 S.Ct., at 1833-1834.

[3] *Wyatt,* then, did not answer the legal question before us, whether petitioners-two employees of a private prison management firm-enjoy a qualified immunity from suit under § 1983. It does tell us, however, to look both to history and to the purposes that underlie government employee immunity in order to find the answer. *Id.,* at 164, 112 S.Ct., at 1831; see also *Newport v. Fact Concerts, Inc.,* 453 U.S. 247, 259, 101 S.Ct. 2748, 2755-2756, 69 L.Ed.2d 616 (1981); *Owen, supra,* at 638, 100 S.Ct., at 1409; *Imbler, supra,* at 424, 96 S.Ct., at 992.

B

History does *not* reveal a "firmly rooted" tradition of immunity applicable to privately employed prison guards. ***405** Correctional services in the United States have undergone various transformations. See D. Shichor, Punishment for Profit 33, 36 (1995) (Shichor). *Government*-employed prison guards may have enjoyed a kind of immunity defense arising out of their status as public employees at common law. See *Procunier v. Navarette,* 434 U.S. 555, 561-562, 98 S.Ct. 855, 859-860, 55 L.Ed.2d 24 (1978) (extending qualified immunity to state prison guards). But correctional functions have never been exclusively public. Shichor 33, 36. Private individuals operated local jails in the 18th century, G. Bowman, S. Hakim, & P. Seidenstat, Privatizing the United States Justice System 271, n. 1 (1992), and private contractors were heavily involved in prison management during the 19th century. Shichor 33, 36.

During that time, some States, including southern States like Tennessee, leased their entire prison systems to private individuals or companies which frequently took complete control over prison management, including inmate labor and discipline. G. Bowman, S. Hakim, & P. Seidenstat, Privatizing Correctional Institutions 42 (1993); see generally B. McKelvey, American Prisons: A Study in American Social History Prior to 1915, pp. 172-180 (1968) (describing 19th-century American prison system); see also Shichor 34; G. de Beaumont & A. de Tocqueville, On the Penitentiary System in the United States and Its Application in France 35 (1833) (describing more limited prison contracting system in Massachusetts and Pennsylvania). Private prison lease agreements (like inmate suits) seem to have been more prevalent after § 1983's enactment, see generally M. Mancini, One Dies, Get Another (1996), but we have found evidence that the common law provided mistreated prisoners in prison leasing States with remedies against mistreatment by those private lessors. See, *e.g., Dade Coal Co. v. Haslett,* 83 Ga. 549, 550-551, 10 S.E. 435, 435-436 (1889) (convict can recover from contractor for injuries sustained while on lease to private company); *Boswell v. Barnhart,* 96 Ga. 521, 522-523, 23 S.E. 414, 415 (1895) (wife can recover from contractor for chain-gang-relatedd ***406** death of husband); *Dalheim v. Lemon,* 45 F. 225, 228-230 (1891) (contractor liable for convict injuries); *Tillar v. Reynolds,* 96 Ark. 358, 360-361, 365-366, 131 S.W. 969, 970, 971-972 (1910) (work farm owner liable for inmate beating death); *Weigel v. Brown,* 194 F. 652 (C.A.8 1912) (prison contractor liable for unlawful whipping); see also *Edwards v. Pocahontas,* 47 F. 268 (CC Va. 1891) (inmate can recover from municipal corporation for injuries caused by poor jail conditions); *Hall v. O'Neil Turpentine Co.,* 56 Fla. 324, 47 So. 609 (1908) (private prison contractor and subcontractor liable to municipality for escaped prisoner under lease agreement); see generally Mancini, *supra* (discussing abuses of 19th-century private lease system). Yet, we have found no evidence that the law gave purely private companies or their employees any special immunity from such suits. Cf. ****2105** *Almango v. Board of Supervisors of Albany County,* 32 N.Y.Sup.Ct. 551 (1881) (no cause of action against private contractor where contractor designated state instrumentality by statute). The case on which the dissent rests its argument, *Williams v. Adams,* 85 Mass. 171 (1861) (which could not-without more-prove the existence of such a tradition and does not, moreover, clearly involve a private prison operator) actually supports our point. It suggests that no immunity from suit would exist for the type of intentional conduct at issue in this case. See *ibid.* (were "battery" at issue, the case would be of a different "character" and "the defendant might be responsible"); see *id.,* at 176 (making clear that case only involves claim of ordinary negligence for lack of heat and other items, not "gross negligence," "implied malice," or "intention to do the prisoner any bodily injury"); cf. *Tower v. Glover,* 467 U.S. 914, 921, 104 S.Ct. 2820, 2825, 81 L.Ed.2d 758 (1984) (concluding that state public defenders do not enjoy immunity from suit where conduct intentional and no history of immunity for intentional conduct was established).

Correctional functions in England have been more consistently public, see generally 22 Encyclopedia Brittanica, ***407** "Prison" 361-368 (11th ed.1911); S. Webb & B. Webb, English Prisons Under Local Government (1922) (Webb), but historical sources indicate that England relied upon private jailers to manage the detention of prisoners from the Middle Ages until well into the 18th century. Shichor 21; see also Webb 4-5; 1 E. Coke, Institutes 43 (1797). The common law forbade those jailers to subject " 'their prisoners to any pain or torment,' " whether through harsh confinement in leg irons, or otherwise. See *In re Birdsong,* 39 F. 599, 601 (S.D.Ga.1889); 1 Coke, *supra,* at 315, 316, 381; 2 C. Addison, A Treatise on the Law of Torts § 1016, pp. 224-225 (1876); see also 4 Geo. IV, ch. 64, § X Twelfth.

And it apparently authorized prisoner lawsuits to recover damages. 2 Addison, *supra,* § 1016. Apparently the law *did* provide a kind of immunity for certain private defendants, such as doctors or lawyers who performed services at the behest of the sovereign. See *Tower, supra,* at 921, 104 S.Ct., at 2825; J. Bishop, Commentaries on Non-Contract Law §§ 704, 710 (1889). But we have found no indication of any more general immunity that might have applied to private individuals working for profit.

Our research, including the sources that the parties have cited, reveals that in the 19th century (and earlier) sometimes private contractors and sometimes government itself carried on prison management activities. And we have found no conclusive evidence of a historical tradition of immunity for private parties carrying out these functions. History therefore does not provide significant support for the immunity claim. Cf. *Briscoe v. LaHue,* 460 U.S. 325, 330-334, 103 S.Ct. 1108, 1112-1115, 75 L.Ed.2d 96 (1983) (immunity for witnesses); *Pierson v. Ray,* 386 U.S. 547, 554-555, 87 S.Ct. 1213, 1217-1218, 18 L.Ed.2d 288 (1967) (immunity for judges and police officers); *Tenney v. Brandhove,* 341 U.S. 367, 372-376, 71 S.Ct. 783, 786-788, 95 L.Ed. 1019 (1951) (immunity for legislators).

C

Whether the immunity doctrine's *purposes* warrant immunity for private prison guards presents a closer question. *Wyatt,* consistent with earlier precedent, described the doctrine's ***408** purposes as protecting "government's ability to perform its traditional functions" by providing immunity where "necessary to preserve" the ability of government officials "to serve the public good or to ensure that talented candidates were not deterred by the threat of damages suits from entering public service." 504 U.S., at 167, 112 S.Ct., at 1833. Earlier precedent described immunity as protecting the public from unwarranted timidity on the part of public officials by, for example, "encouraging the vigorous exercise of official authority," *Butz v. Economou,* 438 U.S. 478, 506, 98 S.Ct. 2894, 2911, 57 L.Ed.2d 895 (1978), by contributing to " 'principled and fearless decision-making,' " *Wood v. Strickland,* 420 U.S. 308, 319, 95 S.Ct. 992, 999, 43 L.Ed.2d 214 (1975)(quoting *Pierson, supra,* at 554, 87 S.Ct., at 1217-1218), and by responding to ****2106** the concern that threatened liability would, in Judge Hand's words, " 'dampen the ardour of all but the most resolute, or the most irresponsible,' " public officials, *Harlow,* 457 U.S., at 814, 102 S.Ct., at 2736 (quoting *Gregoire v. Biddle,* 177 F.2d 579, 581 (C.A.2 1949) (L.Hand, J.), cert. denied, 339 U.S. 949, 70 S.Ct. 803, 94 L.Ed. 1363 (1950)); see also *Mitchell,* 472 U.S., at 526, 105 S.Ct., at 2815 (lawsuits may "distrac [t] officials from their governmental duties").

[4] The guards argue that those purposes support immunity whether their employer is private or public. Brief for Petitioners 35-36. Since private prison guards perform the same work as state prison guards, they say, they must require immunity to a similar degree. To say this, however, is to misread this Court's precedents. The Court has sometimes applied a functional approach in immunity cases, but only to decide which type of immunity-absolute or qualified-a public officer should receive. See, *e.g., Buckley v. Fitzsimmons,* 509 U.S. 259, 113 S.Ct. 2606, 125 L.Ed.2d 209 (1993); *Burns v. Reed,* 500 U.S. 478, 111 S.Ct. 1934, 114 L.Ed.2d 547 (1991); *Forrester v. White,* 484 U.S. 219, 108 S.Ct. 538, 98 L.Ed.2d 555 (1988); *Cleavinger v. Saxner,* 474 U.S. 193, 106 S.Ct. 496, 88 L.Ed.2d 507 (1985); *Harlow, supra.* And it never has held that the mere performance of a governmental function could make the difference between unlimited § 1983 liability and qualified immunity, see, *e.g.,* ***409** *Tower,* 467 U.S., at 922-923, 104 S.Ct., at 2825-2826, especially for a private person who performs a job without government supervision or direction. Indeed a purely functional approach bristles with difficulty, particularly since, in many areas, government and private industry may engage in fundamentally similar activities, ranging from electricity production, to waste disposal, to even mail delivery.

Petitioners' argument also overlook certain important differences that, from an immunity perspective, are critical. First, the most important special government immunity-producing concern-unwarranted timidity-is less likely present, or at least is not special, when a private company subject to competitive market pressures operates a prison. Competitive pressures mean not only that a firm whose guards are too aggressive will face damages that raise costs, thereby threatening its replacement, but also that a firm whose guards are too timid will face threats of replacement by other firms with records that demonstrate their ability to do both a safer and a more effective job.

These ordinary marketplace pressures are present here. The private prison guards before us work for a large, multistate private prison management firm. C. Thomas, D. Bolinger, & J. Badalamenti, Private Adult Correctional Facility Census 1 (10th ed.1997) (listing the Corrections Corporation of America as the largest prison management concern in the United States). The firm is systematically organized to perform a major administrative task for profit. Cf. Tenn.Code Ann. § 41-24-104 (Supp.1996) (requiring that firms contracting with the State demonstrate a history of successful operation of correctional facilities). It performs that task independently, with relatively less ongoing direct state supervision. Compare § 41-4-140(c)(5) (exempting private jails from certain monitoring) with § 41-4-116 (requiring inspectors to examine publicly operated county jails once a month or more) and § 41-4-140(a) (requiring Tennessee Correctional ***410** Institute to inspect public correctional facilities on an annual basis and to report findings of such inspections). It must buy insurance sufficient to compensate victims of civil rights torts. § 41-24-107. And, since the firm's first contract expires after three years, § 41-24-105(a), its performance is disciplined, not only by state review, see §§ 41-24-105(c)-(f), 41-24-109, but also by pressure from potentially competing firms who can try to take its place. Cf. § 41-24-104(a)(4) (permitting State, upon notice, to cancel contract at any time after first year of operation); see also §§ 41-24-105(c) and (d) (describing standards for renewal of contract).

In other words, marketplace pressures provide the private firm with strong incentives ****2107** to avoid overly timid, insufficiently vigorous, unduly fearful, or "nonarduous" employee job performance. And the contract's provisions-including those that might permit employee indemnification and avoid many civil-service restrictions-grant this private firm freedom to respond to those market pressures through rewards and penalties that operate directly upon its employees. See § 41-24-111. To this extent, the employees before us resemble those of other private firms and differ from government employees.

This is not to say that government employees, in their efforts to act within constitutional limits, will always, or often, sacrifice the otherwise effective performance of their duties. Rather, it is to say that government employees typically act within a *different* system. They work within a system that is responsible through elected officials to voters who, when they vote, rarely consider the performance of individual subdepartments or civil servants specifically and in detail. And that system is often characterized by multidepartment civil service rules that, while providing employee security, may limit the incentives or the ability of individual departments or supervisors flexibly to reward, or to punish, individual ***411** employees. Hence a judicial determination that "effectiveness" concerns warrant special immunity-type protection in respect to this latter (governmental) system does not prove its need in respect to the former. Consequently, we can find no *special* immunity-related need to encourage vigorous performance.

Second, "privatization" helps to meet the immunity-related need "to ensure that talented candidates" are "not deterred by the threat of damages suits from entering public service." *Wyatt,* 504 U.S., at 167, 112 S.Ct., at 1833; see also *Mitchell,* 472 U.S., at 526, 105 S.Ct., at 2815-2816 (citing *Harlow,* 457 U.S., at 816, 102 S.Ct., at 2737). It does so in part because of the comprehensive insurance-coverage requirements just mentioned. The insurance increases the likelihood of employee indemnification and to that extent reduces the employment-discouraging fear of unwarranted liability potential applicants face. Because privatization law also frees the private prison-management firm from many civil service law restraints, Tenn.Code Ann. § 41-24-111 (1990), it permits the private firm, unlike a government department, to offset any increased employee liability risk with higher pay or extra benefits. In respect to this second government-immunity-related purpose then, it is difficult to find a *special* need for immunity, for the guards' employer can operate like other private firms; it need not operate like a typical government department.

Third, lawsuits may well " 'distrac[t]' " these employees " 'from their ... duties,' " *Mitchell, supra,* at 526, 105 S.Ct., at 2815 (quoting *Harlow,* 457 U.S., at 816, 102 S.Ct., at 2737), but the risk of "distraction" alone cannot be sufficient grounds for an immunity. Our qualified immunity cases do not contemplate the complete elimination of lawsuit-based distractions. Cf. *id.,* at 818-819, 102 S.Ct., at 2738-2739 (officials subject to suit for violations of clearly established rights). And it is significant that, here, Tennessee law reserves certain important discretionary tasks-those related to prison discipline, to parole, and to good time-for state officials. ***412** Tenn.Code Ann. § 41-24-110 (1990). Given a

continual and conceded need for deterring constitutional violations and our sense that the firm's tasks are not enormously different in respect to their importance from various other publicly important tasks carried out by private firms, we are not persuaded that the threat of distracting workers from their duties is enough virtually by itself to justify providing an immunity. Moreover, Tennessee, which has itself decided not to extend sovereign immunity to private prison operators (and arguably appreciated that this decision would increase contract prices to some degree), § 41-24-107, can be understood to have anticipated a certain amount of distraction.

D.

[5] Our examination of history and purpose thus reveals nothing special enough about the job or about its organizational structure that would warrant providing these private prison guards with a governmental ****2108** immunity. The job is one that private industry might, or might not, perform; and which history shows private firms did sometimes perform without relevant immunities. The organizational structure is one subject to the ordinary competitive pressures that normally help private firms adjust their behavior in response to the incentives that tort suits provide-pressures not necessarily present in government departments. Since there are no special reasons significantly favoring an extension of governmental immunity, and since *Wyatt* makes clear that private actors are not *automatically* immune (*i.e.,* § 1983 immunity does not automatically follow § 1983 liability), we must conclude that private prison guards, unlike those who work directly for the government, do not enjoy immunity from suit in a § 1983 case. Cf. *Forrester v. White,* 484 U.S., at 224, 108 S.Ct., at 542 (Officers "who seek exemption from personal liability have the burden of showing that such an exemption is justified"); see also *Butz,* 438 U.S., at 506, 98 S.Ct., at 2910-2911.

***413** III

We close with three caveats. First, we have focused only on questions of § 1983 immunity and have not addressed whether the defendants are liable under § 1983 even though they are employed by a private firm. Because the Court of Appeals assumed, but did not decide, § 1983 liability, it is for the District Court to determine whether, under this Court's decision in *Lugar v. Edmondson Oil Co.,* 457 U.S. 922, 102 S.Ct. 2744, 73 L.Ed.2d 482 (1982), defendants actually acted "under color of state law."

Second, we have answered the immunity question narrowly, in the context in which it arose. That context is one in which a private firm, systematically organized to assume a major lengthy administrative task (managing an institution) with limited direct supervision by the government, undertakes that task for profit and potentially in competition with other firms. The case does not involve a private individual briefly associated with a government body, serving as an adjunct to government in an essential governmental activity, or acting under close official supervision.

Third, *Wyatt* explicitly stated that it did not decide whether or not the private defendants before it might assert, not immunity, but a special "good-faith" defense. The Court said that it

> "d[id] not foreclose the possibility that private defendants faced with § 1983 liability under *Lugar v. Edmondson Oil Co.,* 457 U.S. 922, 102 S.Ct. 2744, 73 L.Ed.2d 482 (1982), could be entitled to an affirmative defense based on good faith and/or probable cause or that § 1983 suits against private, rather than governmental, parties could require plaintiffs to carry additional burdens." *Wyatt,* 504 U.S., at 169, 112 S.Ct., at 1834.

But because those issues were not fairly before the Court, it left "them for another day." *Ibid.* Similarly, the Court of Appeals in this case limited its holding to the question of immunity. It said specifically that it

> "may be that the appropriate balance to be struck here is to permit the correctional officers to assert a good ***414** faith defense, rather than qualified immunity.... However, that issue is not before this Court in this interlocutory appeal." 88 F.3d, at 425.

Like the Court in *Wyatt,* and the Court of Appeals in this case, we do not express a view on this last-mentioned question.

For these reasons the judgment of the Court of Appeals is

Affirmed.

Justice SCALIA, with whom THE CHIEF JUSTICE, Justice KENNEDY, and Justice THOMAS join, dissenting.

In *Procunier v. Navarette,* 434 U.S. 555, 98 S.Ct. 855, 55 L.Ed.2d 24 (1978), we held that state prison officials, including both supervisory and subordinate officers, are entitled to qualified immunity in a suit brought under 42 U.S.C. § 1983. Today the Court declares that this immunity is unavailable to employees of private prison management firms, who perform the same duties as state-employed correctional officials, who exercise the most palpable form of state police power, and who may be sued for acting "under color of state law." This holding is supported neither by **2109 common-law tradition nor public policy, and contradicts our settled practice of determining § 1983 immunity on the basis of the public function being performed.

I

The doctrine of official immunity against damages actions under § 1983 is rooted in the assumption that that statute did not abolish those immunities traditionally available at common law. See *Buckley v. Fitzsimmons,* 509 U.S. 259, 268, 113 S.Ct. 2606, 2612-2613, 125 L.Ed.2d 209 (1993). I agree with the Court, therefore, that we must look to history to resolve this case. I do not agree with the Court, however, that the petitioners' claim to immunity is defeated if they cannot provide an actual case, antedating or contemporaneous with the enactment of § 1983, in which immunity was successfully asserted by a private prison *415 guard. It is only the absence of such a case, and not any explicit rejection of immunity by any common-law court, that the Court relies upon. The opinion observes that private jailers existed in the 19th century, and that they were successfully sued by prisoners. But one could just as easily show that government-employed jailers were successfully sued at common law, often with no mention of possible immunity, see Schellenger, Civil liability of sheriff or other officer charged with keeping jail or prison for death or injury of prisoner, 14 A.L.R.2d 353 (1950) (annotating numerous cases where sheriffs were held liable). Indeed, as far as my research has disclosed, there may be more case-law support for immunity in the private-jailer context than in the government-jailer context. The only pre-§ 1983 jailer-immunity case of any sort that I am aware of is *Williams v. Adams,* 85 Mass. 171 (1861), decided only 10 years before § 1983 became law. And that case, which explicitly acknowledged that the issue of jailer immunity was "novel," *ibid., appears to have conferred immunity upon an independent contractor.* [1]

The truth to tell, *Procunier v. Navarette, supra,* which established § 1983 immunity for state prison guards, did not trouble itself with history, as our later § 1983 immunity opinions *416 have done, see, *e.g., Burns v. Reed,* 500 U.S. 478, 489-490, 111 S.Ct. 1934, 1940-1941, 114 L.Ed.2d 547 (1991); *Tower v. Glover,* 467 U.S. 914, 920, 104 S.Ct. 2820, 2824-2825, 81 L.Ed.2d 758 (1984), but simply set forth a policy prescription. At this stage in our jurisprudence it is irrational, and productive of harmful policy consequences, to rely upon lack of case support to create an artificial limitation upon the scope of a doctrine (prison-guard immunity) that was itself not based on case support. I say an artificial limitation, because the historical *principles* on which common-law immunity was based, and which are reflected in our jurisprudence, plainly cover the private prison guard if they cover the nonprivate. Those principles are two: (1) immunity is determined by function, not status, and (2) even more specifically, private status is not disqualifying.

"[O]ur cases clearly indicate that immunity analysis rests on functional categories, not on the status of the defendant." *Briscoe v. LaHue,* 460 U.S. 325, 342, 103 S.Ct. 1108, 1119, 75 L.Ed.2d 96 (1983). Immunity "flows not from rank or title or 'location within the Government,' ... but from the nature of the responsibilities of the individual official." *Cleavinger v. Saxner,* 474 U.S. 193, 201, 106 S.Ct. 496, 501, 88 L.Ed.2d 507 (1985), quoting *Butz v. Economou,* 438 U.S. 478, 98 S.Ct. 2894, 57 L.Ed.2d 895 (1978). "Running through our cases, with fair consistency, is a 'functional' approach to immunity ques **2110 tions.... Under that approach, we examine the nature of the functions with which a particular official or class of officials has been lawfully entrusted, and we seek to evaluate the effect that exposure to particular forms of liability would likely have on the appropriate exercise of those functions." *Forrester v. White,* 484 U.S. 219, 224, 108 S.Ct. 538, 542, 98 L.Ed.2d 555 (1988). See also *Buckley, supra,* at 269, 113 S.Ct., at 2613-2614; *Burns, supra,* at 484-486, 111 S.Ct., at 1938-1939; *Malley v. Briggs,* 475 U.S. 335, 342-343, 106 S.Ct. 1092, 1096-1097, 89 L.Ed.2d 271 (1986); *Harlow v. Fitzgerald,* 457 U.S. 800, 810-811, 102 S.Ct. 2727, 2734-2735, 73 L.Ed.2d

396 (1982); *Imbler v. Pachtman,* 424 U.S. 409, 420-429, 96 S.Ct. 984, 990-994, 47 L.Ed.2d 128 (1976). The parties concede that petitioners perform a prototypically governmental function (enforcement of state-imposed deprivation of liberty), and one that gives rise to qualified immunity.

***417** The point that function rather than status governs the immunity determination is demonstrated in a prison-guard case virtually contemporaneous with the enactment of § 1983. *Alamango v. Board of Supervisors of Albany Cty.,* 32 N.Y. Sup.Ct. 551 (1881), held that supervisors charged under state law with maintaining a penitentiary were immune from prisoner lawsuits. Although they were not formally state officers, the court emphasized the irrelevance of this fact:

> "The duty of punishing criminals is inherent in the Sovereign power. It may be committed to agencies selected for that purpose, but such agencies, while engaged in that duty, stand so far in the place of the State and exercise its political authority, and do not act in any private capacity." *Id.,* at 552. [2]

Private individuals have regularly been accorded immunity when they perform a governmental function that qualifies. We have long recognized the absolute immunity of grand jurors, noting that like prosecutors and judges they must "exercise a discretionary judgment on the basis of evidence presented to them." *Imbler,* 424 U.S., at 423, n. 20, 96 S.Ct., at 991, n. 20. "It is the functional comparability of [grand jurors'] judgments to those of the judge that has resulted in [their] being referred to as 'quasi-judicial' officers, and their immunities being termed 'quasi-judicial' as well." *Ibid.* Likewise, witnesses ***418** who testify in court proceedings have enjoyed immunity, regardless of whether they were government employees. "[T]he common law," we have observed, "provided absolute immunity from subsequent damages liability for all persons-*governmental or otherwise*-who were integral parts of the judicial process." *Briscoe, supra,* at 335, 103 S.Ct., at 1115-1116 (emphasis added). I think it highly unlikely that we would deny prosecutorial immunity to those private attorneys increasingly employed by various jurisdictions in this country to conduct high-visibility criminal prosecutions. See, *e.g.,* Kaplan, State Hires Private Lawyer for Bryant Family Trial, Los Angeles Times, Apr. 28, 1993, p. B4, col. 2; Estrich, On Building the Strongest Possible Prosecution Team, Los Angeles Times, July 10, 1994, p. M1, col. 1. There is no more reason for treating private prison guards differently.

II

Later in its opinion, the Court seeks to establish that there are policy reasons for denying to private prison guards the immunity accorded to public ones. As I have indicated above, I believe that history and not judicially analyzed policy governs this matter-but even on its own terms the Court's ****2111** attempted policy distinction is unconvincing. The Court suggests two differences between civil-service prison guards and those employed by private prison firms which preclude any "special" need to give the latter immunity. First, the Court says that "unwarranted timidity" on the part of private guards is less likely to be a concern, since their companies are subject to market pressures that encourage them to be effective in the performance of their duties. If a private firm does not maintain a proper level of order, the Court reasons, it will be replaced by another one-so there is no need for qualified immunity to facilitate the maintenance of order.

This is wrong for several reasons. First of all, it is fanciful to speak of the consequences of "market" pressures in a ***419** regime where public officials are the only purchaser, and other people's money the medium of payment. Ultimately, one prison-management firm will be selected to replace another prison-management firm only if a decision is made by some *political* official not to renew the contract. See Tenn.Code Ann. §§ 41-24-103 to 105 (Supp.1996). This is a government decision, not a market choice. If state officers turn out to be more strict in reviewing the cost and performance of privately managed prisons than of publicly managed ones, it will only be because they have *chosen* to be so. The process can come to resemble a market choice only to the extent that political actors *will* such resemblance-that is, to the extent that political actors (1) are willing to pay attention to the issue of prison services, among the many issues vying for their attention, and (2) are willing to place considerations of cost and quality of service ahead of such political considerations as personal friendship, political alliances, in-state ownership of the contractor, etc. Secondly and more importantly, however, if one assumes a political regime that *is* bent on emulating the market in its purchase of prison services, it is almost certainly the case that, short

of mismanagement so severe as to provoke a prison riot, *price* (not discipline) will be the predominating factor in such a regime's selection of a contractor. A contractor's price must depend upon its costs; lawsuits increase costs [3] ; and "fearless" maintenance of discipline increases lawsuits. The incentive to down-play discipline will exist, moreover, even in those States where the politicians' zeal for market emulation and budget cutting has waned, and where prison-management ***420** contract renewal is virtually automatic: the more cautious the prison guards, the fewer the lawsuits, the higher the profits. In sum, it seems that "market-competitive" private prison managers have even greater need than civil-service prison managers for immunity as an incentive to discipline.

The Court's second distinction between state and private prisons is that privatization "helps to meet the immunity-related need to ensure that talented candidates are not deterred by the threat of damages suits from entering public service" as prison guards. *Ante,* at 2107 (internal quotation marks omitted). This is so because privatization brings with it (or at least has brought with it in the case before us) (1) a statutory requirement for insurance coverage against civil-rights claims, which assertedly "increases the likelihood of employee indemnification," and (2) a liberation "from many civil service law restraints" which prevent increased employee risk from being "offset ... with higher pay or extra benefits," *ibid.* As for the former (civil-rights liability insurance): surely it is the *availability* of that protection, rather than its actual presence in the case at hand, which decreases (if it does decrease, which I doubt) the *need* for immunity protection. (Otherwise, the Court would have to say that a private prison-management firm that is not required to purchase insurance, and does not do so, is more entitled to immunity; and that a government-run prison system that *does* purchase insurance is *less* entitled to immunity.) And of course civil-rights liability insurance ****2112** is no less *available* to public entities than to private employers. But the second factor-liberation from civil-service limitations-is the more interesting one. First of all, simply as a philosophical matter it is fascinating to learn that one of the prime justifications for § 1983 immunity should be a phenomenon (civil-service laws) that did not even exist when § 1983 was enacted and the immunity created. Also as a philosophical matter, it is poetic justice (or poetic revenge) that the Court ***421** should use one of the principal economic benefits of "prison out-sourcing"-namely, the avoidance of civil-service salary and tenure encrustations-as the justification for a legal rule rendering out-sourcing more expensive. Of course the savings attributable to out-sourcing will not be wholly lost as a result of today's holding; they will be transferred in part from the public to prisoner-plaintiffs and to lawyers. It is a result that only the American Bar Association and the American Federation of Government Employees could love. But apart from philosophical fascination, this second factor is subject to the same objection as the first: governments *need not* have civil-service salary encrustations (or can exempt prisons from them); and hence governments, no more than private prison employers, have any *need* for § 1983 immunity.

There is one more possible rationale for denying immunity to private prison guards worth discussing, albeit briefly. It is a theory so implausible that the Court avoids mentioning it, even though it was the primary reason given in the Court of Appeals decision that the Court affirms. *McKnight v. Rees,* 88 F.3d 417, 424-425 (C.A.6 1996). It is that officers of private prisons are more likely than officers of state prisons to violate prisoners' constitutional rights because they work for a profit motive, and hence an added degree of deterrence is needed to keep these officers in line. The Court of Appeals offered no evidence to support its bald assertion that private prison guards operate with different incentives than state prison guards, and gave no hint as to how prison guards might possibly increase their employers' profits by violating constitutional rights. One would think that private prison managers, whose § 1983 damages come out of their own pockets, as compared with public prison managers, whose § 1983 damages come out of the public purse, would, if anything, be more careful in training their employees to avoid constitutional infractions. And in fact, States having experimented with prison privatization commonly report ***422** that the overall caliber of the services provided to prisoners has actually improved in scope and quality. Matters Relating To The Federal Bureau Of Prisons: Hearing before the Subcommittee on Crime of the House Committee on the Judiciary, 104th Cong., 1st Sess., 110 (1995).

* * *

In concluding, I must observe that since there is no apparent *reason,* neither in history nor in policy, for making immunity hinge upon the Court's distinction between public and private guards, the precise *nature* of

that distinction must also remain obscure. Is it privity of contract that separates the two categories-so that guards paid directly by the State are "public" prison guards and immune, but those paid by a prison-management company "private" prison guards and not immune? Or is it rather "employee" versus "independent contractor" status-so that even guards whose compensation is paid directly by the State are not immune if they are not also supervised by a state official? Or is perhaps state supervision alone (without direct payment) enough to confer immunity? Or is it (as the Court's characterization of *Alamango,* see n. 2, *supra,* suggests) the formal designation of the guards, or perhaps of the guards' employer, as a "state instrumentality" that makes the difference? Since, as I say, I see no sense in the public-private distinction, neither do I see what precisely it consists of.

Today's decision says that two sets of prison guards who are indistinguishable in the ultimate source of their authority over prisoners, indistinguishable in the powers that they possess over prisoners, and indistinguishable in the duties that they owe toward prisoners, are to be treated quite differently in the matter of their financial liability. The only sure effect of today's decision-and the only purpose, as far as I can tell-is that it will artificially raise the cost of privatizing ****2113** prisons. Whether this will cause privatization to be prohibitively expensive, or instead simply divert state funds ***423** that could have been saved or spent on additional prison services, it is likely that taxpayers and prisoners will suffer as a consequence. Neither our precedent, nor the historical foundations of § 1983, nor the policies underlying § 1983, support this result.

I respectfully dissent.

All Citations

521 U.S. 399, 117 S.Ct. 2100, 138 L.Ed.2d 540, 70 Empl. Prac. Dec. P 44,784, 65 USLW 4579, 97 Cal. Daily Op. Serv. 4813, 97 Daily Journal D.A.R. 7889, 97 CJ C.A.R. 1009, 11 Fla. L. Weekly Fed. S 64

Footnotes

* The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See *United States v. Detroit Timber & Lumber Co.,* 200 U.S. 321, 337, 26 S.Ct. 282, 287, 50 L.Ed. 499.

1 *Williams* held that prisoners could not recover damages for negligence against the master of a house of correction. That official seems to have been no more a "public officer" than the head of a private company running a prison. For example, the governing statute provided that he was to be paid by the prisoners for his expenses in supporting and employing them, and in event of their default he was given an action *indebitatus assumpsit* for the sum due, "which shall be deemed to be his own proper debt." Mass. Gen.Stat., ch. 143, § 15 (1835). If he failed to distribute to the prisoners those "rations or articles of food, soap, fuel, or other necessaries" directed by the county commissioner (or the mayor and aldermen of Boston), he was subject to a fine. *Id.,* § 45. The opinion in *Williams* says that "[t]he master of the house of correction is not an independent public officer, having the same relations to those who are confined therein that a deputy sheriff has to the parties to a writ committed to him to serve." 85 Mass., at 173.

2 The Court cites *Alamango* for the proposition that there is "no cause of action against [a] private contractor where [the] contractor [is] designated [a] state instrumentality by statute." *Ante,* at 2105. The opinion in *Alamango,* however, does not cite any statutory designation of the supervisors as a "state instrumentality," and does not rely on such a designation for its holding. It does identify the Board of Supervisors as "a mere instrumentality selected by the State," 32 N.Y. Sup.Ct., at 552, but the same could be said of the prison management firm here (or the master of the house of corrections in *Williams v. Adams,* 85 Mass. 171 (1861), see n. 1, *supra*). If one were to accept the Court's distinguishing of this case, all that would be needed to change the outcome in the present suit is the pointless formality of designating the contractor a "state instrumentality"-hardly a rational resolution of the question before us.

3 This is true even of successfully defended lawsuits, and even of lawsuits that have been insured against. The Court thinks it relevant to the factor I am currently discussing that the private prison-management firm "must buy insurance sufficient to compensate victims of civil rights torts," *ante,* at 2106. Belief in the relevance of this factor must be traceable, ultimately, to belief in the existence of a free lunch. Obviously, as civil-rights claims increase, the cost of civil-rights insurance increases.

 KeyCite Yellow Flag - Negative Treatment
Distinguished by Bay Area Cellular Telephone Co. v. City of Union City, Cal.App. 1 Dist., April 29, 2008

32 Cal.4th 409
Supreme Court of California

Jerry RICHMOND et al., Plaintiffs and Appellants,
v.
SHASTA COMMUNITY SERVICES DISTRICT, Defendant and Respondent.

No. S105078.
|
Feb. 9, 2004.

Synopsis
Background: Property owners brought action challenging constitutionality of resolution adopted by water district that increased connection fee charged to new users and continued unchanged, as part of connection fee, a fee for fire suppression. The Superior Court, Shasta County, No. 0134636, Richard A. McEachen, J., upheld enactment. Property owners appealed. The Court of Appeal affirmed in part and reversed in part. The Supreme Court granted review, superseding the opinion of the Court of Appeal.

Holdings: The Supreme Court, Kennard, J., held that:

[1] district's capacity charge, imposed on applicants for new service connections, was not an "assessment" subject to state constitutional restrictions;

[2] district's fee for fire suppression as part of new connection fee was not subject to constitutional restrictions on fees; and

[3] district could amend ordinance establishing new connection fees by resolution.

Judgment of the Court of Appeal reversed and matter remanded to that court with directions.

Opinion, 116 Cal.Rptr.2d 343, superseded.

West Headnotes (9)

[1] Water Law
Charges as Taxes or Assessments

Water district's capacity charge, imposed on applicants for new service connections, was not an "assessment" subject to state constitutional restrictions on assessments, since district could only estimate number of connections and could not identify specific parcels for which new applications would be made, as required by constitutional provision. West's Ann.Cal. Const. Art. 13D, §§ 2, 4.

See 9 Witkin, Summary of Cal. Law (9th ed. 1989) Taxation, §§ 110A, 110B; Cal. Jur. 3d, Property Tax, § 4.

16 Cases that cite this headnote

[2] Constitutional Law
General Rules of Construction

The principles of constitutional interpretation are similar to those governing statutory construction.

4 Cases that cite this headnote

[3] Constitutional Law
Intent in general

The aim of constitutional interpretation is to determine and effectuate the intent of those who enacted the constitutional provision at issue.

8 Cases that cite this headnote

[4] Constitutional Law
Meaning of Language in General

Constitutional Law
Plain, ordinary, or common meaning

To determine intent of enactors of a constitutional provision, the Supreme Court begins by examining the constitutional text, giving the words their ordinary meanings.

4 Cases that cite this headnote

[5] **Constitutional Law**
Reasonableness of result
Constitutional Law
Meaning of Language in General

Courts construe constitutional phrases liberally and practically; where possible they avoid a literalism that effects absurd, arbitrary, or unintended results.

Cases that cite this headnote

[6] **Constitutional Law**
Meaning of Language in General
Constitutional Law
Relation to former constitution
Statutes
Defined terms;definitional provisions
Statutes
Legislative Construction

Rule, holding that when a term has been given a particular meaning by a judicial decision it should be presumed to have the same meaning in later-enacted statutes or constitutional provisions, does not apply when the statute or constitutional provision contains its own definition of the term at issue; if the Legislature has provided an express definition of a term, that definition ordinarily is binding on the courts.

2 Cases that cite this headnote

[7] **Water Law**
Connection and capitalization fees

Water district's capacity charge, imposed on applicants for new service connections, was not a "development fee"; district had no authority to approve or disapprove property development, and a property owner could request a new service connection without proposing any new development.

19 Cases that cite this headnote

[8] **Water Law**
Charge for fire protection service

Water district's fee for fire suppression as part of new connection fee was not subject to constitutional restrictions on fees, since it was not imposed as an incident to ownership; although supplying water was a property-related service within constitutional definition of a fee or charge, a water service fee was a "fee or charge" only if it was imposed upon a person as an incident of property ownership, and making a new connection to the system was not such imposition, since it resulted from an owner's voluntary decision to apply for the connection. West's Ann.Cal. Const. Art. 13D, §§ 2(e), 3(b), 6(a, b); West's Ann.Cal.Gov.Code §§ 61621, 61621.3.

25 Cases that cite this headnote

[9] **Water Law**
Connection and capitalization fees

Water district could amend ordinance establishing new connection fee by resolution under authority of Mitigation Fee Act, which allowed such action by ordinance or resolution; district was not subject to statute requiring sewage system actions to be enacted by ordinance. West's Ann.Cal.Gov.Code § 66016(b); West's Ann.Cal.Health & Safety Code § 5471.

3 Cases that cite this headnote

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Opinion

KENNARD, J.

In November 1996, California voters adopted Proposition 218, the Right to Vote on Taxes Act, which added articles XIII C and XIII D to the California Constitution. (See *Apartment Assn. of Los Angeles County,* ***415** *Inc. v. City of Los Angeles* (2001) 24 Cal.4th 830, 835, 102 Cal.Rptr.2d 719, 14 P.3d 930.) Article XIII D of the state Constitution (hereafter article XIII D) specifies various restrictions and requirements for assessments, fees, and charges that local governments impose on real property or on persons as an incident of property ownership. Here, the main issue is whether a charge that a local water district imposed as a condition of making a new connection to the water system, and that the district used to finance capital improvements to the water system, is subject to the restrictions of article XIII D. Other questions presented are whether article XIII D prohibits a local water district from continuing to include in the new connection fees a fire suppression charge, the proceeds of which are used to purchase firefighting and emergency medical equipment for the district's volunteer fire department, and whether an ordinance imposing a water connection fee may be amended by a resolution.

On these questions, we conclude: (1) a capacity charge imposed as a condition for making a new connection to a water system, the proceeds of which are used to finance capital improvements, is not an assessment within the meaning of article XIII D, and thus it is not subject to article XIII D's restrictions on assessments; (2) a fire suppression fee imposed as a condition for making a new connection to a water system, the proceeds of which are used to purchase firefighting and emergency medical *****124** equipment, is not a property-related fee or charge under article XIII D, and thus it is not subject to article XIII D's prohibition against property-related fees and charges for general governmental services; and (3) an ordinance enacted by a community services district to impose a water connection fee may be amended by a resolution. Because these conclusions are consistent with the trial court's judgment but inconsistent with part of the Court of Appeal's opinion, we will reverse that court's judgment with directions to affirm the trial court's judgment.

I. FACTS AND PROCEDURAL HISTORY

Because neither party petitioned the Court of Appeal for a rehearing, we take the facts largely from that court's opinion. (See Cal. Rules of Court, rule 28(c)(2).)

Defendant Shasta Community Services District (the District) is a local public entity organized under the community services district law (Gov.Code, § 61000 et seq.). It operates a water system for residential and commercial users and a volunteer fire department that provides both fire suppression and emergency medical services. In February 1994, the District adopted an ordinance (No. 1–94) establishing a "standard connection fee" of $2,000, plus the cost of a water meter, for new water service connections. ***416** According to the ordinance, this fee included a capacity charge [1] of $600 for future improvements to the water system and a fire suppression charge of $400. The ordinance did not expressly allocate the remaining $1,000, but one may infer that it covered the cost of installing the water service connection because the ordinance also provided that if the water main was not on the same side of the street or highway as the property to be served, "the District will charge the actual ****521** cost of the connection to the extent such cost exceed[s] the sum of $1,000."

In November 1997, the District adopted a resolution (No. 10–97) to amend this ordinance. According to the resolution, applicants for new water service connections would be required to pay: (1) a "standard connection fee"; (2) the actual cost of a water meter; and (3) if the property owner chose to have the District install the service connection, the "actual cost of the materials,

labor, and overhead" for installing the "entire service connection including the meter, line setter, meter box, appurtenant equipment, and mainline extension, if any." The "standard connection fee" consisted of a $3,176 capacity charge for capital improvements to the water system and a $400 fire suppression charge. The resolution stated that the $3,176 capacity charge was "based upon estimated project costs of $762,300 for future improvements assigned to the new development of 240 future connections which equals $3,176 per connection."

In March 1998, plaintiffs Jerry Richmond, Linda Panich, Hank Edelstein, and Victoria Edelstein, both individually and doing business as a joint venture, brought this action to test the validity of the resolution increasing the fees for new connections. (Code Civ. Proc., § 860; Gov.Code, §§ 66013, 66022.) They alleged that they owned real property within the District and also within an area proposed for annexation into the District. They challenged the resolution on many grounds, only three of which are relevant here: (1) The resolution imposed an assessment within the meaning of article XIII D, but ***125 the District had not satisfied the constitutional requirements for imposing an assessment; (2) the $400 fire suppression charge was a "fee" or "charge" within the meaning of article XIII D, and it violated article XIII D's prohibition against fees or charges for general governmental services; and (3) the 1994 ordinance could be amended only by another ordinance, not by a mere resolution. Plaintiffs requested a declaratory judgment that the resolution was void and a permanent injunction restraining the District from enforcing it.

*417 The action was tried to the court without a jury. At the trial, the District presented evidence showing, among other things, that the capital improvements to be funded by the $3,176 capacity charge, including a new 500,000–gallon storage tank, would both remedy existing deficiencies in the water system and expand the system's ability to provide service to new customers through new connections. The $3,176 charge was calculated by allocating 50 percent of the cost of the improvements to new connections and 50 percent to existing connections. Water customers throughout the district would benefit from the improvements, but customers in certain higher-elevation areas would receive somewhat less benefit than other customers. After considering the evidence, the superior court granted judgment for the District. The court concluded: (1) The connection fee imposed by resolution No. 10–97 is not a special assessment but a development fee exempt from article XIII D; (2) the fire suppression charge is merely the continuation of a fee imposed before article XIII D was enacted; and (3) the connection fee could legally be adopted by a resolution (enactment of an ordinance was not required).

On plaintiffs' appeal, the Court of Appeal affirmed the judgment, except as to the fire suppression charge. The court reasoned that the District's connection fee was not an assessment within the meaning of article XIII D because that constitutional provision by implication defines an assessment as a charge imposed on specific identified parcels, whereas the connection fee was not imposed on identified parcels. Because the connection fee was imposed only when a property owner requested a new service connection, the specific properties for which connections would be sought could not be identified (although the number of such requests could be estimated), and thus the connection charge could not be characterized as an assessment. The Court of Appeal also concluded that the connection fee, because it was incurred only when the owner voluntarily requested a new service connection, was properly characterized as a development fee, and as such it was exempt from the requirements of article XIII D.

**522 With respect to the fire suppression charge, however, the Court of Appeal accepted plaintiff's argument that it was a fee for general governmental services prohibited by section 6, subdivision (b)(5), of article XIII D. The Court of Appeal rejected the District's argument that this provision did not apply to fees authorized by laws enacted before article XIII D became effective, but only to fees that were newly enacted or increased thereafter.

Finally, the Court of Appeal concluded that the District could validly use a resolution to amend an ordinance.

*418 II. THE CAPACITY CHARGE

[1] [2] [3] [4] To determine whether the District's $3,176 capacity charge, imposed only on applicants for new service connections, violates article XIII D's restrictions on assessments, we must interpret our state Constitution. "The principles of constitutional interpretation are similar to those governing statutory

construction." ***126 (*Thompson v. Department of Corrections* (2001) 25 Cal.4th 117, 122, 105 Cal.Rptr.2d 46, 18 P.3d 1198.) The aim of constitutional interpretation is to determine and effectuate the intent of those who enacted the constitutional provision at issue. (*Ibid.*) To determine that intent, we begin by examining the constitutional text, giving the words their ordinary meanings. (*Ibid.;* accord, *Leone v. Medical Board* (2000) 22 Cal.4th 660, 665, 94 Cal.Rptr.2d 61, 995 P.2d 191.)

Section 2 of article XIII D defines an "assessment" as "any levy or charge upon real property ... for a special benefit conferred upon the real property...." (Art. XIII D, § 2, subd. (b).) It defines "special benefit" as "a particular and distinct benefit over and above general benefits conferred on real property located in the district or to the public at large...." (*Id.,* § 2, subd. (i).)

Section 4 of article XIII D establishes procedures and requirements for assessments. A local public agency may not impose an assessment, as defined in article XIII D, unless: (1) the agency identifies "all parcels which will have a special benefit conferred upon them and upon which an assessment will be imposed" (art. XIII D, § 4, subd. (a)); (2) the agency obtains an engineer's report that supports the assessment (*id.,* § 4, subd. (b)); (3) the assessment does not exceed the reasonable cost of the proportional special benefit conferred on the affected parcel (*id.,* § 4, subds. (a) & (f)); and (4) after giving notice to affected property owners and holding a public hearing, the agency does not receive a majority protest based on ballots "weighted according to the proportional financial obligation of the affected property" (*id.,* § 4, subds. (c)-(e)).

To determine what constitutes an assessment under article XIII D, it is necessary to consider not only article XIII D's definition of an assessment, but also the requirements and procedures that article XIII D imposes on assessments. Article XIII D requires that an agency imposing an assessment identify "all parcels which *will* have a special benefit conferred upon them and upon which an assessment *will* be imposed." (Art. XIII D, § 4, subd. (a), italics added.) The agency then must give written notice of the proposed assessment to the owners of these identified parcels (*id.,* § 4, subd. (c)) and provide an opportunity for a protest using ballots "weighted according to the proportional financial obligation of the affected property" (*id.,* § 4, subd. (e)).

*419 Because the capacity charge is imposed only on property owners who apply for a new service connection, the District cannot identify the parcels upon which the capacity charge will be imposed. Here, the District *estimated* that there would be 240 new connection applications, but the District did not and could not *identify* the specific parcels for which new connection applications would be made. At most, the District can identify the parcels within its boundaries on which the capacity charge *would* be imposed *if* the owners applied for a service connection. But the matter is more complex, because many existing undeveloped parcels would likely be subdivided into an indeterminable number of smaller parcels, for each of which a connection might be requested, thus making it impossible to now determine "the proportional financial obligation of the affected property." And even this understates the problem, because owners of property outside the District's **523 boundaries may seek service connections by applying for annexation of their property into the District. Therefore, it is impossible for the District to comply with article XIII D's requirement that the agency identify the parcels on which the assessment will be imposed ***127 and provide an opportunity for a majority protest weighted according to the proportional financial obligation of the affected property.

We agree with the Court of Appeal that the proper conclusion to be drawn from this impossibility of compliance is that an assessment within the meaning of article XIII D must not only confer a special benefit on real property, but also be imposed on identifiable parcels of real property. Because the District does not impose the capacity charge on identifiable parcels, but only on individuals who request a new service connection, the capacity charge is not an assessment within the meaning of article XIII D.

[5] This construction is consistent with settled rules of constitutional interpretation. "Courts construe constitutional phrases liberally and practically; where possible they avoid a literalism that effects absurd, arbitrary, or unintended results." (*Carman v. Alvord* (1982) 31 Cal.3d 318, 327, 182 Cal.Rptr. 506, 644 P.2d 192; see also *California Correctional Peace Officers Assn. v. State Personnel Bd.* (1995) 10 Cal.4th 1133, 1147, 43 Cal.Rptr.2d 693, 899 P.2d 79 ["a practical construction is preferred"].) Construing article XIII D's definition of assessment as applying only to charges imposed

on identifiable parcels avoids the probably unintended result of prohibiting local water districts from imposing capacity charges, no matter how modest or reasonable, for new connections because of the inherent impossibility of identifying in advance the parcels for which new connections would later be requested.

This construction is also consistent with article XIII D's definition of an assessment as a "levy or charge *upon real property* ...." (Art. XIII D, § 2, ***420** subd. (b), italics added.) [2] The District does not impose the capacity charge on real property as such, but on individuals who apply for new service connections. It is the applicant who must pay, and the District may not impose a lien or otherwise have recourse to the property to compel payment. Rather, the District simply does not initiate water service until the charge is paid. A charge that operates in this way cannot be described as a charge upon real property, within the meaning of article XIII D.

Finally, this construction is consistent with the aim of Proposition 218 to enhance taxpayer consent. Here, the District proposed to divide the costs of new capital improvements between users receiving service through existing connections and users applying for new connections. This case concerns only imposition of costs on new connections. Presumably, any costs imposed on customers receiving service through existing connections would be subject to article XIII D's voter approval requirements, and thus their consent. Customers who apply for new connections give consent by the act of applying. Moreover, water connection fees are already subject to significant constraints under Government Code section 66013. [3]

*****128** ***421** ****524** Plaintiffs rely on this court's decision in *****129** *San Marcos Water Dist. v. San Marcos Unified School Dist.* (1986) 42 Cal.3d 154, 228 Cal.Rptr. 47, 720 P.2d 935 (*San Marcos*). The issue there was whether a provision of the state Constitution exempting public entities from payment of property taxes (Cal. Const., art. XIII, § 3, subd. (b)) applied to a local water district's capacity fee, used to fund capital improvements to the water system. The constitutional property tax exemption for public entities had been construed to include ***422** special assessments, but not user fees, and thus the issue presented to this court was whether the capacity charge was more properly characterized as a special assessment or as a user fee for purposes of this constitutional provision. We concluded that a capacity charge was a hybrid, in the sense that it had some characteristics of a user fee and some characteristics of an assessment. (*San Marcos, supra,* at p. 163, 228 Cal.Rptr. 47, 720 P.2d 935.) We concluded also, however, that the fee should be considered an assessment for purposes of the public entity property tax exemption. We established a bright-line rule that "a fee aimed at assisting a utility district to defray costs of capital ****525** improvements will be deemed a special assessment from which other public entities are exempt." (*Id.* at pp. 164–165, 228 Cal.Rptr. 47, 720 P.2d 935.) [4]

San Marcos, supra, 42 Cal.3d 154, 228 Cal.Rptr. 47, 720 P.2d 935, is not on point here. We were not there construing the term "assessment" as used in article XIII D; instead, we were construing the constitutional provision exempting public entities from property taxes (Cal. Const., art. XIII, § 3, subd. (b)), a provision in which the term "assessment" does not appear. In deciding what constituted an assessment in *San Marcos,* we sought to determine and effectuate the constitutional purpose for exempting public entities from property taxes, a purpose that plays no role in interpreting the provisions of article XIII D that are at issue here. The characteristic that we found determinative for identifying assessments in *San Marcos*—that the proceeds of the fee were used for capital improvements—forms no part of article XIII D's definition of assessments. For each of these reasons, we agree with the Court of Appeal that *San Marcos* is not helpful, much less controlling, in this strikingly different context. (See *Ginns v. Savage* (1964) 61 Cal.2d 520, 524, fn. 2, 39 Cal.Rptr. 377, 393 P.2d 689 ["Language used in any opinion is of course to be understood in the light of the facts and the issue then before the court, and an opinion is not authority for a proposition not therein considered."]; *People v. Woodhead* (1987) 43 Cal.3d 1002, 1008, 239 Cal.Rptr. 656, 741 P.2d 154 [a word may have different legal meanings in different contexts]; *In re Marriage of Buol* (1985) 39 Cal.3d 751, 757, fn. 6, 218 Cal.Rptr. 31, 705 P.2d 354 [same].)

[6] Plaintiffs invoke the rule that when a term has been given a particular meaning by a judicial decision, it should be presumed to have the same meaning in later-enacted statutes or constitutional provisions. (See *People v. Hurtado* (2002) 28 Cal.4th 1179, 1188–1189, 124 Cal.Rptr.2d 186, 52 P.3d 116; *Arnett v. Dal* *****130** *Cielo* (1996) 14 Cal.4th 4, 19, 56 Cal.Rptr.2d 706, 923

***423** P.2d 1.) Plaintiffs argue that *San Marcos, supra,* 42 Cal.3d 154, 228 Cal.Rptr. 47, 720 P.2d 935, gave the term "assessment" a precise legal meaning as applying to capacity charges used to fund capital improvements, and therefore the term "assessment" in article XIII D, enacted after *San Marcos,* must be construed to have the same meaning. But the rule that plaintiffs invoke does not apply when, as here, the statute or constitutional provision contains its own definition of the term at issue: "If the Legislature has provided an express definition of a term, that definition ordinarily is binding on the courts." (*Curle v. Superior Court* (2001) 24 Cal.4th 1057, 1063, 103 Cal.Rptr.2d 751, 16 P.3d 166.) Here, article XIII D provides both an express definition of assessment and an implied qualification of that definition through the requirement that the agency identify the specific parcels on which the assessment will be imposed.

Plaintiffs next rely on the definition of assessment in Government Code section 53750, part of the Proposition 218 Omnibus Implementation Act (Gov.Code, §§ 53750–53753) that the Legislature enacted in 1997. (Stats.1997, ch. 38, § 5.) Government Code section 53750 states that "[f]or purposes of Article XIII C and Article XIII D of the California Constitution" an "assessment" means "any levy or charge by an agency upon real property that is based upon the special benefit conferred upon the real property by a public improvement or service, that is imposed to pay the capital cost of the public improvement, the maintenance and operation expenses of the public improvement, or the cost of the service being provided." (Gov.Code, § 53750, subd. (b).) As plaintiffs point out, this definition does not distinguish between charges imposed only in response to a request for service and charges imposed on previously identified parcels. In this respect, ****526** the statutory definition is no different from the constitutional definition in section 2, subdivision (b), of article XIII D. But the statutory provisions implementing article XIII D, like article XIII D itself, assume that assessments are imposed only on identified parcels. Under Government Code section 53753, subdivision (b), before levying a new or increased assessment, an agency must give notice " to the record owner of each identified parcel." Government Code section 53750, subdivision (g), defines an "identified parcel" as "a parcel of real property that an agency has identified as having a special benefit conferred upon it and upon which a proposed assessment is to be imposed...." Because the statutory provisions merely reflect the constitutional provisions, they do not alter our conclusion that under article XIII D an assessment is a charge imposed on previously identified parcels, and not a charge imposed only as a condition of extending service through a new service connection.

Arguing that a charge imposed only on property owners who voluntarily seek a governmental service or approval may properly be characterized as an assessment, plaintiffs call our attention to the Integrated Financing District ***424** Act (Gov.Code, § 53175 et seq.), under which local agencies may establish "contingent assessments" payable only when a landowner applies for development approval. (See *id.,* § 53187.) As plaintiffs point out, the Integrated Financing District Act includes notice and majority protest provisions for owners of property subject to the contingent assessment (*id.,* § 53183). (See *Southern Pacific Pipe Lines, Inc. v. Board of Supervisors* (1992) 9 Cal.App.4th 451, 461–462, 11 Cal.Rptr.2d 745.) We agree that the District's capacity charge is similar to a contingent assessment under the Integrated Financing District Act, but this *****131** observation does not assist plaintiffs. Unlike article XIII D, the Integrated Financing District Act does not require a local agency to identify in advance the particular parcels that *will be* subject to the assessment. Instead, the notice of intention to impose a contingent assessment goes to all owners of property within the proposed assessment zone, and the assessment cannot be imposed if protested by "the owners of more than one-half of the area of the property within the proposed ... district which is proposed to be subject to the contingent assessment immediately or in the future...." (Gov.Code, § 53183, subd. (d).) Thus, under the Integrated Financing District Act, in contrast to article XIII D, all owners of property *potentially* subject to a charge are entitled to notice and a weighted vote.

Article XIII D could have been written, like the Integrated Financing District Act, to cover contingent assessments as well as assessments imposed only on previously identified parcels. But it was not written in that manner, and we remain persuaded that a capacity charge contingent on some voluntary action by the property owner is not an assessment within the meaning of article XIII D.

[7] Plaintiffs argue that the Court of Appeal erred in characterizing the District's capacity charge as a development fee. Observing that development fees "are imposed only if a property owner elects to

develop" (*Loyola Marymount University v. Los Angeles Unified School Dist.* (1996) 45 Cal.App.4th 1256, 1267, 53 Cal.Rptr.2d 424), the Court of Appeal reasoned that the District's capacity charge, because it was imposed only in response to a property owner's voluntary decision to request a service connection, should be considered a development fee and thus exempt from the requirements of article XIII D under its section 1, subdivision (b), stating that "[n]othing in this article ... shall be construed to ... [a]ffect existing laws relating to the imposition of fees or charges as a condition of property development."

Plaintiffs insist that the District's capacity charge cannot be a development fee because the District has no authority to approve or disapprove property development, and because a property owner may request a new service connection without proposing any new development, such as when the owner ***425** of a previously developed residential parcel decides to use the District's water instead of water from an existing well on the property.

We agree with plaintiffs that the District's capacity charge is not a development fee. It is similar to a development fee in being imposed ****527** only in response to a property owner's voluntary application to a public entity, but it is different in that the application may be only for a water service connection without necessarily involving any development of the property. (See *Utility Cost Management v. Indian Wells Valley Water Dist., supra,* 26 Cal.4th at p. 1191, 114 Cal.Rptr.2d 459, 36 P.3d 2 [noting that a capacity charge "might apply regardless of whether a development project is at issue"]; *Capistrano Beach Water Dist. v. Taj Development Corp.* (1999) 72 Cal.App.4th 524, 530, 85 Cal.Rptr.2d 382 [concluding that a capacity charge is not a development fee under the Mitigation Fee Act (Gov.Code, § 66000 et seq.)].) Our agreement that the capacity charge is not a development fee does not assist plaintiffs, however, because it does not mean that the capacity charge is an assessment within the meaning of article XIII D. The capacity charge is neither an assessment nor a development fee under article XIII D.

We conclude, as did the trial court and the Court of Appeal, that the District's *****132** capacity charge is not an assessment under article XIII D.

III. THE FIRE SUPPRESSION CHARGE

Article XIII D provides: "No fee or charge may be imposed for general governmental services including, but not limited to, police, *fire,* ambulance or library services, where the service is available to the public at large in substantially the same manner as it is to property owners." (Art. XIII D, § 6, subd. (b)(5), italics added.) At the trial below, the evidence showed that the District uses the proceeds of the fire suppression component of the connection fee to purchase equipment for its volunteer fire department, including both firefighting equipment and emergency medical equipment. [5] The fire department provides firefighting and emergency medical services to the public at large. Accordingly, the District's fire suppression charge is "imposed for general governmental services" within the meaning of section 6, subdivision (b)(5), of article XIII D, and it is prohibited by that provision if it satisfies article XIII D's definition of a "fee or charge."

***426** Article XIII D defines a "fee" or "charge" as "any levy other than an ad valorem tax, a special tax, or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property-related service." (*Id.,* § 2, subd. (e).) It defines "property-related service" as "a public service having a direct relationship to property ownership." (*Id.,* § 2, subd. (h).)

[8] The District argues that the connection fee, including its fire suppression component, does not fall within article XIII D's definition of a fee or charge because it is not imposed "upon a parcel or upon a person as an incident of property ownership." (Art. XIII D, § 2, subd. (e).) The District does not impose the fee on parcels of real property but on persons who apply for a water service connection. The District does not impose the fee on such persons "as an incident of property ownership" but instead as an incident of their voluntary decisions to request water service. If a person fails to pay the connection fee, the District does not collect it by levying upon the person's property. Rather, because the person applying for service has not satisfied a condition for extending service, the District does not make the water connection and does not provide water service.

We agree that a connection charge, because it is not imposed "as an incident of property ownership" (art. XIII D, § 2, subd. (e)), is not a fee or charge under article XIII D. A connection fee is not imposed simply by virtue of property ownership, but instead it is imposed as an

incident of the voluntary act of **528 the property owner in applying for a service connection.

Urging a different construction, plaintiffs rely on article XIII D's definition of a fee or charge as "including a user fee or charge for a property-related service." (*Id.,* § 2, subd. (e).) They argue that supplying water is a "property-related service," and, therefore, all charges for water service must be deemed to be imposed ***133 "upon a person as an incident of property ownership."

We agree that supplying water is a "property-related service" within the meaning of article XIII D's definition of a fee or charge. In the ballot pamphlet for the election at which article XIII D was adopted, the Legislative Analyst stated that "[f]ees for water, sewer, and refuse collection service probably meet the measure's definition of property-related fee." (Ballot Pamp., Gen. Elec. (Nov. 5, 1996), analysis of Prop. 218 by Legis. Analyst, p. 73.) The Legislative Analyst apparently concluded that water service has a direct relationship to property ownership, and thus is a property-related service within the meaning of article XIII D because water is indispensable to most uses of real property; because water is provided through pipes that are physically connected to the property; and because a water provider may, by recording a certificate, obtain a lien on the property for the amount of any *427 delinquent service charges (see Gov.Code, §§ 61621, 61621.3). But the Legislative Analyst was apparently referring to fees imposed on existing water service customers, not fees imposed as a condition of initiating water service in the first instance.

Several provisions of article XIII D tend to confirm the Legislative Analyst's conclusion that charges for utility services such as electricity and water should be understood as charges imposed "as an incident of property ownership." For example, subdivision (b) of section 3 provides that "fees for the provision of electrical or gas service shall not be deemed charges or fees imposed as an incident of property ownership" under article XIII D. Under the rule of construction that the expression of some things in a statute implies the exclusion of other things not expressed (*In re Bryce C.* (1995) 12 Cal.4th 226, 231, 48 Cal.Rptr.2d 120, 906 P.2d 1275), the expression that electrical and gas service charges are not within the category of property-related fees implies that similar charges for other utility services, such as water and sewer, are property-related fees subject to the restrictions of article XIII D.

This implication is reinforced by subdivision (c) of article XIII D, section 6, which expressly excludes "fees or charges for sewer, water, and refuse collection services" from the voter approval requirements that article XIII D imposes on property-related fees and charges. Because article XIII D does not include similar express exemptions from the other requirements that it imposes on property-related fee and charges, the implication is strong that fees for water, sewer, and refuse collection services are subject to those other requirements. (See *Howard Jarvis Taxpayers Assn. v. City of Roseville* (2002) 97 Cal.App.4th 637, 645, 119 Cal.Rptr.2d 91 [reaching the same conclusion].)

Thus, we agree that water service fees, being fees for property-related services, may be fees or charges within the meaning of article XIII D. But we do not agree that *all* water service charges are necessarily subject to the restrictions that article XIII D imposes on fees and charges. Rather, we conclude that a water service fee is a fee or charge under article XIII D if, but only if, it is imposed "upon a person as an incident of property ownership." (Art. XIII D, § 2, subd. (e).) A fee for ongoing water service through an existing connection is imposed "as an incident of property ownership" because it requires nothing other than normal ownership and use of property. But a fee for making a new connection to the system is not imposed "as an incident of property ownership" because it results from the owner's voluntary decision to apply for the connection.

***134 Any doubt on this point is removed by considering the requirements that article XIII D imposes on property-related fees and charges. As with assessments, article XIII D requires local government agencies to identify the *428 parcels affected by a property-related fee or charge. Specifically, it requires the agency to identify "[t]he parcels **529 upon which a fee or charge is proposed for imposition." (Art. XIII D, § 6, subd. (a)(1).) As we have explained, it is impossible for the District to comply with such a requirement for connection charges, because the District cannot determine in advance which property owners will apply for water service connection. As with assessments, this impossibility of compliance strongly suggests that connection fees for new users are

not subject to article XIII D's restrictions on property-related fees.

Because the connection fee, including the fire suppression charge, is not a property-related fee or charge within the meaning of article XIII D, it is not subject to article XIII D's prohibition on property-related fees or charges for general governmental services.

IV. AMENDMENT OF AN ORDINANCE BY A RESOLUTION

[9] Government Code section 66016, part of the Mitigation Fee Act (Gov.Code, § 66000 et seq.), provides in subdivision (b): "Any action by a local agency to levy a new fee or service charge or to approve an increase in an existing fee or service charge shall be taken only by ordinance *or resolution.*" (Italics added.) We agree with the Court of Appeal that this provision authorizes the District to use a resolution to increase existing connection fees, and that this authorization applies even when the fees were initially imposed by an ordinance.

Arguing to the contrary, plaintiffs assert that the Mitigation Fee Act is procedural rather than substantive. In other words, it does not give local water districts substantive authority to impose fees, but instead it merely regulates the manner in which fees may be imposed. But whether a fee imposed by ordinance may be amended by resolution is essentially a question of procedure, not substance. Therefore, we may and do construe Government Code section 66016 as giving the District authority to use a resolution to amend a fee ordinance.

In support of their position that the District may not use a resolution to amend an ordinance imposing a connection fee, plaintiffs rely on *Cavalier Acres, Inc. v. San Simeon Acres Community Services District* (1984) 151 Cal.App.3d 798, 199 Cal.Rptr. 4 (*Cavalier Acres*), in which the Court of Appeal concluded that a community services district could impose or increase water charges only by ordinance. In reaching this conclusion, the *Cavalier Acres* Court of Appeal relied on Government Code section 61621.5 and Health and Safety Code section 5471. Relying on the rule of construction that when two statutory provisions conflict, the one that is more specific controls, ***429** the *Cavalier Acres* Court of Appeal stated that, as applied to water charges imposed by a community services district, Government Code section 61621.5 and Health and Safety Code section 5471 were both more specific than Government Code section 66016.

Government Code section 61621.5 is part of the Community Services District Law (Gov.Code, § 61000 et seq.). As here relevant, it provides: "Except as otherwise provided in this section, a district may *by ordinance* adopt regulations binding upon all persons to govern the construction and use of its facilities and property, including regulations imposing reasonable charges for the use thereof." (Gov.Code, § 61621.5, subd. (a), italics added.) By its *****135** terms, this provision applies only to charges for the use of a community services district's *facilities,* not charges for its *services.* The Community Services District Law gives districts authority to impose charges for services, including charges for water, in a different section, Government Code section 61621. (See *Waterman Convalescent Hospital, Inc. v. Jurupa Community Services Dist.* (1996) 53 Cal.App.4th 1550, 1552–1553, 62 Cal.Rptr.2d 264.) As relevant here, it provides: "A district may prescribe, revise and collect rates or other charges for the services and facilities furnished by it...." (Gov.Code, § 61621.) Nothing in this provision requires a community services district to act by ordinance rather than by resolution when, as here, it revises and prescribes the charges for water service.

Health and Safety Code section 5471 is part of article 4 ("Sanitation and Sewerage Systems") of chapter 6 ("General Provisions with Respect to Sewers") of part 3 ("Community Facilities") of division 5 ("Sanitation") of ****530** the Health and Safety Code. As relevant here, it reads: "In addition to the powers granted in the principal act, *any entity* shall have power, *by an ordinance* approved by a two-thirds vote of the members of the legislative body thereof, to prescribe, revise and collect, fees, tolls, rates, rentals, or other charges, including *water,* sewer standby or immediate availability charges, for services and facilities furnished by it, either within or without its territorial limits, in connection with its *water,* sanitation, storm drainage, or sewerage system...." (Italics added.)

Health and Safety Code section 5471 does not apply to the District because it is not an "entity" within the meaning of this provision. Health and Safety Code section 5470 states that " '[e]ntity' means and includes counties, cities and counties, cities, sanitary districts, county sanitation districts, sewer maintenance districts,

and other public corporations and districts authorized to acquire, construct, maintain and operate sanitary sewers and sewerage systems." The District is a public agency organized as a community services district under the Community Services District Law (Gov.Code, § 61000 et seq.) to provide water service. Nothing in the record indicates it is authorized ***430** to construct, maintain, or operate sewers or sewerage systems. In this respect, *Cavalier Acres, supra,* 151 Cal.App.3d 798, 199 Cal.Rptr. 4, is distinguishable because the community services district at issue there provided both water and sewer services. (See *id.* at p. 800, 199 Cal.Rptr. 4.)

Moreover, even if we assume that Health and Safety Code section 5471 applies to the District, that provision, by its terms, confers authority "[i]n addition to" the authority otherwise granted to a public entity. In other words, its main purpose is to supplement rather than to limit a public agency's authority to impose charges for water or sewer services in connection with a water or sewerage system. For a public agency organized as a community services district, the "principal act" (*ibid.*) providing its authority is the Community Services District Law (Gov.Code, § 61000 et seq.). As we have seen, Government Code section 61621 authorizes community services districts to establish charges for water services without requiring that they act by ordinance rather than by resolution, and Government Code section 66016, part of the Mitigation Fee Act (Gov.Code, § 66000 et seq.), expressly authorizes districts to use either a resolution or an ordinance to impose or increase a service charge. We do not read Health and Safety Code section 5471 as limiting or abrogating that authority.

Again, we find *Cavalier Acres, supra,* 151 Cal.App.3d 798, 199 Cal.Rptr. 4, to be *****136** distinguishable. In 1984, when the Court of Appeal decided *Cavalier Acres,* the wording of Health and Safety Code section 5471 was materially different. The introductory phrase ("In addition to the powers granted in the principal act") was not present, having been added later by amendment. (Stats.1988, ch. 706, § 1, p. 2348.) The 1988 amendment demonstrates the Legislature's intent that Health and Safety Code section 5471 not be read as limiting the powers conferred on public entities by the laws under which they were organized.

V. CONCLUSION

Before beginning to provide water service to real property through a new connection, the District requires its new customers to pay a capacity fee and a fire suppression fee. Both of these fees are used to fund capital improvements, the former to the water system and the latter to the volunteer fire department. Because these fees are imposed only on the self-selected group of water service applicants, and not on real property that the District has identified or is able to identify, and because neither fee can ever become a charge on the property itself, we conclude that neither fee is subject to the restrictions that article XIII D imposes on property assessments and property-related fees. We also conclude that the District could properly use a resolution to amend an ordinance establishing these fees.

***431** The judgment of the Court of Appeal is reversed and the matter is remanded to that court with directions to affirm the trial court's judgment.

****531** WE CONCUR: GEORGE, C.J., BAXTER, WERDEGAR, CHIN, BROWN and MORENO, JJ.

All Citations

32 Cal.4th 409, 83 P.3d 518, 9 Cal.Rptr.3d 121, 2004 Daily Journal D.A.R. 1146, 2004 Daily Journal D.A.R. 1429

Footnotes

1 The Government Code defines a "capacity charge" as "a charge for facilities in existence at the time a charge is imposed or charges for new facilities to be constructed in the future that are of benefit to the person or property being charged." (Gov.Code, § 66013, subd. (b)(3).)

2 In this regard, it may be instructive to compare article XIII D's definition of an assessment as a "levy or charge upon real property" (*id.,* § 2, subd. (b)) with its definition of a fee or charge as a "levy ... upon a parcel or upon a person as an incident of property ownership ..." (*id.,* § 2, subd. (e)). Although a property-related fee or charge may be imposed either on the property itself or upon the owner as an incident of ownership, a levy must be imposed on the property itself to qualify as an assessment under article XIII D.

3 Government Code section 66013 provides:

"(a) Notwithstanding any other provision of law, when a local agency imposes fees for water connections or sewer connections, or imposes capacity charges, those fees or charges shall not exceed the estimated reasonable cost of providing the service for which the fee or charge is imposed, unless a question regarding the amount of the fee or charge imposed in excess of the estimated reasonable cost of providing the services or materials is submitted to, and approved by, a popular vote of two-thirds of those electors voting on the issue.

"(b) As used in this section:

"(1) 'Sewer connection' means the connection of a structure or project to a public sewer system.

"(2) 'Water connection' means the connection of a structure or project to a public water system, as defined in subdivision (f) of Section 116275 of the Health and Safety Code.

"(3) 'Capacity charge' means a charge for facilities in existence at the time a charge is imposed or charges for new facilities to be constructed in the future that are of benefit to the person or property being charged.

"(4) 'Local agency' means a local agency as defined in Section 66000.

"(5) 'Fee' means a fee for the physical facilities necessary to make a water connection or sewer connection, including, but not limited to, meters, meter boxes, and pipelines from the structure or project to a water distribution line or sewer main, and that does not exceed the estimated reasonable cost of labor and materials for installation of those facilities.

"(c) A local agency receiving payment of a charge as specified in paragraph (3) of subdivision (b) shall deposit it in a separate capital facilities fund with other charges received, and account for the charges in a manner to avoid any commingling with other moneys of the local agency, except for investments, and shall expend those charges solely for the purposes for which the charges were collected. Any interest income earned from the investment of moneys in the capital facilities fund shall be deposited in that fund.

"(d) For a fund established pursuant to subdivision (c), a local agency shall make available to the public, within 180 days after the last day of each fiscal year, the following information for that fiscal year:

"(1) A description of the charges deposited in the fund.

"(2) The beginning and ending balance of the fund and the interest earned from investment of moneys in the fund.

"(3) The amount of charges collected in that fiscal year.

"(4) An identification of all of the following:

"(A) Each public improvement on which charges were expended and the amount of the expenditure for each improvement, including the percentage of the total cost of the public improvement that was funded with those charges if more than one source of funding was used.

"(B) Each public improvement on which charges were expended that was completed during that fiscal year.

"(C) Each public improvement that is anticipated to be undertaken in the following fiscal year.

"(5) A description of each interfund transfer or loan made from the capital facilities fund. The information provided, in the case of an interfund transfer, shall identify the public improvements on which the transferred moneys are, or will be, expended. The information, in the case of an interfund loan, shall include the date on which the loan will be repaid, and the rate of interest that the fund will receive on the loan.

"(e) The information required pursuant to subdivision (d) may be included in the local agency's annual financial report.

"(f) The provisions of subdivisions (c) and (d) shall not apply to any of the following:

"(1) Moneys received to construct public facilities pursuant to a contract between a local agency and a person or entity, including, but not limited to, a reimbursement agreement pursuant to Section 66003.

"(2) Charges that are used to pay existing debt service or which are subject to a contract with a trustee for bondholders that requires a different accounting of the charges, or charges that are used to reimburse the local agency or to reimburse a person or entity who advanced funds under a reimbursement agreement or contract for facilities in existence at the time the charges are collected.

"(3) Charges collected on or before December 31, 1998.

"(g) Any judicial action or proceeding to attack, review, set aside, void, or annul the ordinance, resolution, or motion imposing a fee or capacity charge subject to this section shall be brought pursuant to Section 66022.

"(h) Fees and charges subject to this section are not subject to the provisions of Chapter 5 (commencing with Section 66000), but are subject to the provisions of Sections 66016, 66022, and 66023.

"(i) The provisions of subdivisions (c) and (d) shall only apply to capacity charges levied pursuant to this section."

4 In response to our *San Marcos* decision, the Legislature granted local water districts authority to impose capacity charges on other public entities, thereby removing the public entity exemption. (See Gov.Code, §§ 54999–54999.6; *Utility Cost Management v. Indian Wells Valley Water Dist.* (2001) 26 Cal.4th 1185, 1189, 114 Cal.Rptr.2d 459, 36 P.3d 2; *City of*

Marina v. Board of Trustees (2003) 109 Cal.App.4th 1179, 1182–1183, 135 Cal.Rptr.2d 815; *Utility Cost Management v. East Bay Mun. Utility Dist.* (2000) 79 Cal.App.4th 1242, 1246–1247, 94 Cal.Rptr.2d 777.)

5 Government Code section 50078 authorizes "[a]ny local agency which provides fire suppression services" to "determine and levy an assessment for fire suppression services." Plaintiffs have argued that the District may not rely on this provision as authority for its fire suppression fee because Government Code section 50001 defines "local agency" to include only cities and counties. Plaintiffs have overlooked Government Code section 50078.1, subdivision (b), which defines "local agency," as used in Government Code section 50078, to include any city, county, "or special district."

DECLARATION OF SERVICE BY EMAIL

I, the undersigned, declare as follows:

I am a resident of the County of Sacramento and I am over the age of 18 years, and not a party to the within action. My place of employment is 980 Ninth Street, Suite 300, Sacramento, California 95814.

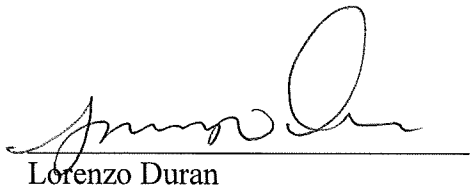
On January 14, 2019, I served the:

- **Claimant's Comments on the Draft Proposed Decision filed January 11, 2019**
- **SWRCB's Comments on the Draft Proposed Decision filed January 11, 2019**

  Lead Sampling in Schools: Public Water System No. 3710020, 17-TC-03
  Permit Amendment No. 2017PA-SCHOOLS, City of San Diego Public Water System No. 3710020, effective January 18, 2017
  City of San Diego, Claimant

By making it available on the Commission's website and providing notice of how to locate it to the email addresses provided on the attached mailing list.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct, and that this declaration was executed on January 14, 2019 at Sacramento, California.



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Last Updated: 1/9/19

Claim Number: 17-TC-03

Matter: Lead Sampling in Schools: Public Water System No. 3710020

Claimant: City of San Diego

TO ALL PARTIES, INTERESTED PARTIES, AND INTERESTED PERSONS:

Each commission mailing list is continuously updated as requests are received to include or remove any party or person on the mailing list. A current mailing list is provided with commission correspondence, and a copy of the current mailing list is available upon request at any time. Except as provided otherwise by commission rule, when a party or interested party files any written material with the commission concerning a claim, it shall simultaneously serve a copy of the written material on the parties and interested parties to the claim identified on the mailing list provided by the commission. (Cal. Code Regs., tit. 2, § 1181.3.)

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