FITCH RATES SAN DIEGO PUBLIC FACILITIES FINANCING AUTHORITY'S (CA) $163.7MM WASTEWATER REVS 'AA-'

Fitch Ratings-Austin-29 March 2010: Fitch Ratings has assigned an 'AA-' rating to the following bonds for the Public Facilities Financing Authority aof the City of San Diego, California (the authority):

--$163.7 million senior sewer revenue refunding bonds, series 2010A.

The bonds are anticipated to be sold the week of April 5 via negotiation. Bond proceeds will be used to refund a portion of the authority's outstanding debt for interest savings and pay costs of issuance.

Fitch has also affirmed the following outstanding bonds:

--$1.3 billion in outstanding parity bonds (pre-refunding) at 'AA-'.

The Rating Outlook is Stable.

Fitch will recalibrate the ratings on the above referenced bonds on April 30, 2010 as described in the March 25, 2010 report 'Recalibration of U.S. Public Finance Ratings', available at 'www.fitchratings.com'. At that time the ratings will be revised as described below.

--The rating on the senior lien bonds will be revised to 'AA' from 'AA-' with a Stable Outlook.

RATING RATIONALE:

--The City of San Diego's (the city) wastewater system's (the system) financial performance is good and benefits from prudent formal policies and reserves;
--Leverage ratios are relatively high and will increase moderately over the next few years as the system addresses regulatory requirements, somewhat pressuring financial margins;
--Rates are moderately high but are expected to remain reasonable over the forecast period;
--The service area is broad and diverse.

KEY RATING DRIVERS:

--Maintenance of adequate financial margins is integral to long-term maintenance of the rating;
--Approval of the full secondary treatment waiver for the system's largest treatment plant - Point Loma Wastewater Treatment Plant (PLWTP) - over the near term will be critical in keeping leverage ratios in check and limiting the impact to financial performance.

SECURITY:

The bonds are secured by revenues, which consist primarily of installment payments made by the city to the authority. The city's obligation to make installment payments constitutes a senior lien on net revenues of the system.

CREDIT SUMMARY:

Capital needs for fiscals 2010-2014 total nearly $638 million, with the majority of costs attributable either directly or indirectly to requirements under a regulatory consent decree. Current capital estimates are down 15% from last year, primarily as a result of better cost estimates, competitive bids, and deferral of certain growth-related projects. Debt levels remain somewhat elevated, but with the now reduced borrowing needs leverage ratios should only experience modest escalation through fiscal 2014. While the current CIP addresses substantially all of the capital requirements related to the consent decree and there are limited growth pressures facing the system, capital costs could escalate substantially in the years following the CIP period if the system is required to convert PLWTP to full secondary treatment standards.

Currently, PLWTP operates under an expired 301(h) waiver of the federal Clean Water Act, allowing the facility to treat to advanced primary standards. The city has received a tentative approval from regulators that the waiver will be renewed for an additional five-year period, with the actual permit expected sometime later this year. However, it is likely that sometime after the expiration of the renewed permit in 2015 that additional enhancements to the system will be required, which could include conversion of PLWTP's treatment process to full secondary. While the city will be working with regulators in the intervening timeframe to evaluate possible enhancements to the system without such a conversion of PLWTP, if the facility is required to upgrade to full secondary capital costs are currently forecasted to be as high as $1.5 billion. Fitch will continue to monitor regulatory developments and assess the possible impact they could have to the system's credit profile.

Financially, the system's performance is good, characterized by upward trends in both annual debt service (ADS) coverage and liquidity over the last five fiscal years. More recently, operating results were enhanced with passage of a four-year package of annual rate hikes by the mayor and city council beginning in fiscal 2007. For fiscal 2009, ADS coverage on senior lien bonds was 2.0 times (x), while ADS coverage of all system debt was 1.6x. For the same period liquidity was healthy, with days cash and days of working capital were both above 550 days.

With the anticipated rise in fixed costs over the fiscal 2014 forecast period, financial margins are expected to face some pressure, but should still remain adequate. Over the next five fiscal years, senior lien and all-in ADS coverage is projected to decline somewhat to minimum levels of 1.6x, including the costs associated with additional debt issuances. Offsetting the decline in ADS, liquidity is expected to remain strong and even improve slightly as the city is planning to increase contributions to base reserves. Projections include moderate annual rate hikes of 4% beginning in fiscal 2012 above the amounts already approved by the mayor and city council through fiscal 2010; the fiscal 2010 rate hike will become effective in May 2010. While current rates are considered relatively high at around 1% of median household income, the level of approved and anticipated rate increases should keep rates in the affordable range through the forecast period.

The system provides retail service to around 1.3 million people within the city and also provides wholesale service to approximately 800,000 people in the outlying area. The city's diverse economy is driven by healthcare, military, tourism, and educational sectors. The city experienced broad economic growth throughout much of this decade, but like many areas across the country the collapse of the housing market and national recession have impacted job growth and led to rising foreclosure activity. Consequently, unemployment within the city has risen, with the city's most recent results for December 2009 at 10.1%, up from 7.4% year-over-year.

Applicable criteria available on Fitch's website at www.fitchratings.com:
--'Revenue-Supported Rating Criteria' (Dec. 29, 2009);
--'Water and Sewer Revenue Bond Rating Guidelines' (Aug. 6, 2008).

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Additional information is available at 'www.fitchratings.com'