New Issue: Moody's Assigns MIG 1 Rating to the City of San Diego, CA TRANs

Global Credit Research - 31 May 2012

$130 Million in Short Term Debt Affected

SAN DIEGO (CITY OF) CA
Cities (including Towns, Villages and Townships)
CA

Moody's Rating

ISSUE		RATING
2012-13 Tax and Revenue Anticipation Notes, Series A		MIG 1
Sale Amount	$130,000,000	
Expected Sale Date	06/13/12	
Rating Description	Note: Tax and/or Revenue Anticipation	

Moody's Outlook N/A

Opinion

NEW YORK, May 31, 2012 --Moody's Investors Service has assigned MIG-1 ratings to San Diego's 2012-13 Tax and Revenue Anticipation Notes Series A. The notes are issued to fund the city's mid-year cash flow needs and are secured by all unrestricted available funds of the city.

Rating Rationale

The rating reflects the manageable size of the borrowing, and strong cash margins at the times of segregations for repayment and at year end. The high degree of reliability of the cash flows, early segregation and available liquidity outside the core general fund cash flows also figure favorably in the rating.

Strengths

- Strong overall liquidity borrowable resources

- Long experience with note issuance and repayment

- History of conservative cash flow projections

- Early set-aside for note repayment - Moderate size of borrowing

Challenges

- Projected year-end balance only 6.4% of receipts

Detailed Credit Discussion

Total Borrowing is Average in Size and Easily Manageable

San Diego's notes total an estimated $130 million representing 11.3% of projected fiscal 2013 receipts, which is slightly below the typical level of 12.3%. This is a substantial decrease from the prior year's $161 million and largely reflects the city's overall improving cash position. The segregations for note repayment have a weighted average set-aside of an above average 3.2 months before fiscal year end, slightly earlier than the 2.9 months which is characteristic of California TRAN issuers.

The City's Reasonable Cash Flow Projections Have a History of Accuracy

The city's fiscal 2012 ending cash balance is expected to come in at $86.9 million, which is significantly greater than the previously projected $53.4 million, and is rooted in $23.4 million higher than projected receipts and $10 million less than projected expenditures. Although there were higher than projected receipts for several revenue streams, the largest improvement was in sales tax receipts which are now expected to be $10. 2 million or 6% greater than the projection. On the expenditure side, salaries and benefits outperformed the projections by $3.2 million. Overall, receipts, net of TRANs are expected to be 2.1% higher, while expenditures are expected to be 0.9% lower. The direction and size of these variance underscore the general accuracy and moderate conservatism inherent in the city's projections.

On a budget basis, the city is estimating year end 2012 general fund balances in line with the 2011 results when the total general fund balance stood at 20.3% of revenues and the uncommitted fund balance was 8.1% of revenues. While these are significantly below statewide levels for cities, they are offset by the city's demonstrated ability to operate within budgetary limitations with frequent adjustments.

Reasonable and Reliable Cash Flows Indicate Sufficient Liquidity for Repayment of Notes

For 2013 the city is conservatively projecting a narrowing of its year-end cash position with a notable, $13.2 million decrease on June 30, 2013 compared to the expected June 30, 2012 balance, bringing the core general fund balance to $73.7 million or a moderate 6.4% of receipts. Total receipts are projected to increase by $8.4 million or a mere 0.7% while expenditures are estimated to increase by $43.3 million or 3.7% The underlying assumptions are reasonable and reflect budgetary expectations. Property taxes are estimated to remain essentially flat, with a nominal increase of 0.4%. Sales tax is expected to continue to grow with a total increase of $12.8 million or 7.6%. Most other revenue items are projected to decrease, while transient occupancy tax and franchise fees will continue to grow.

On the expenditure side, salaries and wages are projected to increase by $7.5 million or 1.5%, which reflects the modest budgeted increase. All other expenditure items are also projected to increase by even larger amounts, which may be conservative.

Segregation for note repayment will occur in January, (25%) April, (25%) and May (50% and interest) . The 2012-13 cash flow projections indicate positive monthly core general fund balances after the segregations with a year-end balance of $73.7 million or 6.4% of receipts, which is consistent with the rating. While our confidence level in the accuracy of cash flows is high, note holder security is bolstered by the presence of more than $83 million in additional general fund liquidity, in what the city refers to as its policy fund balance. These are funds in various governmental funds in the general fund but outside of core funds, pre-approved for meeting general fund cash flow needs. This amount fluctuates throughout the year between $83 million and $139 million.

Liquidity Bolstered by Additional General Fund Resources

The city's liquidity position is enhanced by the large amount of resources available outside the projected core general fund cash flows. as mentioned above. The city projects it will have available $81.1 million in these resources in July, 2012 which, will increase steadily to $139.4 million in May 2013, and drop to $83.0 million at year-end. Adding these funds to the projected ending general fund balances at fiscal yearend 2013 yields total balances representing a healthy 13.6% of projected receipts.

What Could Help The Rating Go UP

NA

What Could Help The Rating Go DOWN

Significantly higher than anticipated reduction of cash position

Significant lowering of the outstanding long term rating

Key Statistics

Issuer Rating: Aa3

Projected amount borrowed as % of receipts, FY 2013: 11.3%

Estimated ending cash as % of receipts, FY 2012: 7.6%

Projected ending cash as % of receipts, FY 2013: 6.4%

Additional General Fund Liquidity, Projected balance FY 2013: $83.0 million.

Weighted maturity timing (months before June): 3.2 months

The principal methodology used in this rating was Short-Term Cash Flow Notes published in May 2007. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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