MOODY'S
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS MIG 1 RATINGS TO TAX AND REVENUE ANTICIPATION NOTES OF CITY OF SAN DIEGO, CA

Global Credit Research - 20 Jun 2010

APPROXIMATELY $169 MILLION IN SHORT TERM DEBT AFFECTED

Municipality
CA

Moody's Rating

ISSUE	RATING
Tax and Revenue Anticipation Notes, Series A 2010-11	MIG 1
Sale Amount $50,800,000	
Expected Sale Date 06/22/10	
Rating Description Tax and Revenue Anticipation Notes	
Tax and Revenue Anticipation Notes, Series B 2010-11	MIG 1
Sale Amount $46,000,000	
Expected Sale Date 06/22/10	
Rating Description Tax and Revenue Anticipation Notes	
Tax and Revenue Anticipation Notes, Series C 2010-11	MIG 1
Sale Amount $70,085,000	
Expected Sale Date 06/22/10	
Rating Description Tax and Revenue Anticipation Notes	

Opinion

NEW YORK, Jun 20, 2010 -- Moody's Investors Service has assigned MIG-1 ratings to San Diego's 2010-11 Tax and Revenue Anticipation Notes Series A, Series B and Series C. 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. The three series mature on January 31, 2011, April 29, 2011, and May 31, 2011, respectively. The rating reflects the manageable size of the total borrowing, the stable liquidity within the projected cash flows, high degree of reliability of the cash flows which indicate strong cash margins at the times of series maturities, and available liquidity outside the general fund. We believe that the current structure with three discrete maturities is somewhat weaker than the typical California note structure, because it lacks the time span between early segregation of funds and note repayment.

TOTAL BORROWING AMOUNT IS AVERAGE AND MANAGEABLE

San Diego's three series of notes total an estimated $169 million representing 15.8% of projected fiscal 2011 receipts, which equals the typical level of 15.8%. This is a substantial increase from the prior year's $125 million and largely reflects the large increase in the pension contribution of the city as a result of market losses in recent periods. The three maturities have a weighted average set-aside of a below average 2.5 months before fiscal year end, slightly later than the 2.9 months which is characteristic of California TRAN issuers.

CITY EXPECTS TO MEET PROJECTED ENDING CASH POSITION FOR THE CURRENT YEAR WITH TIMELY EXPENDITURE REDUCTIONS WHICH MOSTLY KEEP PACE WITH UNDERPERFORMING RECEIPTS.

The city's fiscal 2010 ending cash balance is expected to come in at $68.2 million, which is significantly less than the previously projected $84.8 million, and is rooted in $73.4 million shortfall in receipts. Although there were shortfalls in almost all categories of receipts, the largest shortfalls were in economically sensitive revenues: $18.6 million in sales taxes, $8.2 million in transit occupancy tax and $19.5 million in charges for services. Property tax receipts, on the other hand, performed better than expected with a decrease of just $7.1 million over 2009, (-1.8%) compared with an estimated decrease of $15 million, which may indicate firming up of the city's property tax base. With timely reductions in expenditures compared to projections, including $10.5 million in fringe benefits and $20.3 million in services and supplies, the city was able to reduce expenditure by more than $54 million to preserve its cash position. The resulting year-end cash balance as a percent of receipts is now an estimated 6.4% compared to the projected 7.7% these margins are sufficient for the assigned rating, and we derive additional comfort from the city's ability to adjust to the midyear revenue shortfalls which were largely due to economic conditions beyond the city's control.

On a budget basis, the city is estimating general fund balances in line with the 2009 results when the total general fund balance stood at 10.2% of revenues and the unreserved, undesignated balance was 7.0% of revenues. While these are significantly below statewide levels for cities, the city's demonstrated ability to operate within budgetary limitations with frequent adjustments mitigates potential weakening of note holder security due to narrow reserves.

REASONABLE AND RELIABLE CASH FLOWS INDICATE SUFFICIENT LIQUIDITY FOR REPAYMENT OF NOTES DURING MONTHS OF SERIES MATURITIES

For its 2010-11 cash flow needs the city is for the second time employing the unusual structure of three series with distinct maturities. Therefore, in addition to our typical analysis, which includes evaluating overall liquidity margins, cash flow accuracy, and the soundness of assumptions, we applied additional scrutiny to the ending cash balances in, January, April and May. Overall, the city is projecting continued depletion of its cash position with a notable, $9.9 million decrease on June 30, 2011 compared to the expected June 30, 2010 balance, bringing it to $58.3 million or just 5.4% of receipts. Total receipts are projected to increase by $6.1 million or a mere 0.6% while expenditures are estimated to decrease by just $1.0 million or 0.1%. The underlying assumptions are reasonable and reflect budgetary expectations. Property taxes are estimated to remain essentially flat, with a nominal decrease of 0.1%, which may be conservative in light of the recent improvement in the residential real estate market. Sales tax is expected to remain flat as well, which may also be conservative given recent trends in retail activity. However, transient occupancy tax is projected to increase by just 1.0% reversing the previous trend of significant decreases. On the expenditure side, salaries and wages are projected to decrease by $19.9 million or 4.0%, which reflects the annualized effect of the ongoing reductions implemented in 2010. While sizable, this projection is reasonable in light of the $23.7 million or 4.6% decrease in salaries and benefits in 2010 over 2009. Most other expenditures are projected to decrease with one major exception. Retirement costs are projected to increase by a sizable $56 million or 42.8% reflecting market losses in preceding periods. This increase is also the primary reason for the increase in size of this year's note compared to last year's.

At the end of January, April and May, 2011, which are the months in which the three separate series mature the ending balance, are projected to be $32.7 million, $29.9 million and $46.2 million, respectively, after payment of debt service. Debt service coverage levels in these months are comfortable at 1.64 times. 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 liquidity, in what the city refers to as its policy fund balance, which consists of cash positions in various governmental funds, pre-approved for meeting general fund cash flow needs. This amount fluctuates throughout the year between $83.4 million and $110 million and is the alternate liquidity discussed below. The debt service coverage levels with these reserves is projected for January, April and May at 3.6x, 3.6x and 3.0x respectively.

LIQUIDITY BOLSTERED BY ADDITIONAL BORROWABLE RESOURCES

The city's liquidity position is enhanced by the large amount of borrowable resources available outside the projected general fund cash flows as mentioned above. The city projects it will have available $90.4 million in these resources in July, 2010 which, will decrease to $82.4 million in August and peak at $110 million in April. The year-end amount is estimated at $95.3 million Adding these funds to the projected ending general fund balances at fiscal yearend 2011 yields total balances representing a healthy 14.4% of projected receipts.

KEY STATISTICS

GO Rating: Aa3

Projected amount borrowed as % of receipts, FY 2011: 15.8%

Projected ending cash as % of receipts, FY 2011: 5.4%

Alternate Liquidity, Projected balance FY 2011: $95.3 million.

Weighted maturity timing (months before June): 2.5 months

The last rating action for City of San Diego was on May 7, 2010 when the city's general obligation rating of Aa3 was affirmed

The principal methodology used in assigning the rating was Short-Term Cash Flow Notes published on May 10, 2007, and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

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