

Summary:

San Diego, California; Note

Primary Credit Analyst:

Sussan Corson, New York (1) 212-438-2014; sussan_corson@standardandpoors.com

Secondary Credit Analyst:

Misty Newland, San Francisco (1) 415-371-5073; misty_newland@standardandpoors.com

Table Of Contents

Rationale

Economy

Related Criteria And Research

Summary:

San Diego, California; Note

Credit Profile		
US\$70.1 mil 2010-11 TRANs ser C dtd 07/01/2010 due 05/31/2011		
<i>Short Term Rating</i>	SP-1+	New
US\$50.8 mil 2010-11 TRANs ser A dtd 07/01/2010 due 01/31/2011		
<i>Short Term Rating</i>	SP-1+	New
US\$46. mil 2010-11 TRANs ser B dtd 07/01/2010 due 04/29/2011		
<i>Short Term Rating</i>	SP-1+	New

Rationale

Standard & Poor's Ratings Services has assigned its 'SP-1+' short-term rating to each of San Diego, Calif.'s 2010-11 series A, series B,, and series C tax and revenue anticipation notes (TRANs).

The ratings reflect our opinion of:

- The city's underlying credit characteristics (underlying rating: A) and its proactive measures to adjust expenditures to balance its budget in fiscal 2010 and 2011 as revenue has declined and expenditures have increased;
- Strong projected TRANs debt service coverage by total net available ending cash fund balances, including general fund and policy fund cash, at each of the maturity dates.
- Very strong projected TRANs debt service coverage by cash balances when including existing alternate liquidity in the city's enterprise funds.

According to the resolution, on and after the first day of the set-aside months, the city comptroller will deposit into the note repayment fund unrestricted taxes, income, revenue, cash receipts, and other money attributable to fiscal 2011 and lawfully available for payment, exclusive of monies encumbered for a special purpose. If this money does not repay the notes, they are payable from any other lawfully available funds. According to the city, it has pledged the policy funds, which primarily include public liability funds, equipment replacement funds, and capital funds that were funded with general fund contributions, as part of unrestricted revenues. Furthermore, city officials indicate they would be able to use policy fund cash to cover note maturity without first receiving council approval, although permanent transfers of policy fund cash would require retroactive council action.

- The series 2010-11A TRANs are secured by the first unrestricted revenues to be received on and after Jan. 1, 2011, and mature Jan. 31.
- The series 2010-11B TRANs are secured by the first unrestricted revenues received on and after April. 1, 2010, and mature April 29.
- The series 2010-11C TRANs are secured by the first unrestricted revenues received on and after May 1, 2010 and mature May 31.

Although the pledge refers to first unrestricted money received in the month the notes mature--which provides 4.0x, 3.8x, and 3.6x at each of the respective note maturity dates--according to our short-term debt criteria, Standard &

Poor's primarily calculates debt service coverage by measuring debt service due against available cash balances at month's end, after paying out normal operating expenditures and not including proceeds from additional note borrowings. Officials project net general fund cash balances at the Jan. 31 2011, April 29, 2011, and May 31, 2011, maturity dates provide what we view as good 1.64x note coverage in each month, respectively.

San Diego includes policy fund cash in its cash flows that it indicates were originally funded with general fund money and are included in the pledged unrestricted funds available for TRANs repayment. These policy funds primarily include public liability reserve and self-insurance funds, internal service funds, and a capital improvement reserve funded with general fund contributions. Combined ending general fund and policy fund cash balances projected by the city for each of the Jan. 31, 2011, April 29, 2011, and May 31, 2011, maturity dates cover series A, B, and C TRANs by what we view as a strong 3.6x in January, 3.6x in April, and 2.0x in May. The city has included \$13.3 million of Proposition 42 funds in the cash flows that it expects the state will pay by May 2011; however, if the state deferred these revenues, city officials indicate the city would not incur the expenditures.

Last year, the city issued its 2009-2010 series A, B, and C TRANs. Officials estimate actual net general fund cash balances in fiscal 2010 were negative at the Dec. 31 2009, Jan. 29, 2010, and April 30, 2010 maturity dates due to the adoption of new accounting software that pushed a backlog of general fund disbursements for purchase orders from the beginning of the fiscal year to the note maturity months. However, management indicates that the fiscal 2010 notes were paid from combined general and policy fund cash balances which, for each of the Dec. 31, 2009, Jan. 29, 2010, and April 30, 2010 maturity dates, covered series A, B, and C TRANs by what we view as a strong 4.4x in December and a good 1.6x or 1.8x, in January and April, respectively. The city had originally projected 4.2x, 2.2x, and 2.7x coverage at each note maturity date by combined cash balances excluding revenue reductions from the state. These represent a 5%, negative 28%, and negative 34% variance between actual and projected coverages at each of the note maturity dates, respectively.

San Diego also has identified sources of alternative liquidity in its sewer, water, and environmental services enterprise funds. As of May 28, 2010, the combined cash in these three funds totaled \$620.6 million, but the city is unable to project actual cash balances on the respective series' maturity dates. Using alternate liquidity available as of May 28, 2010, total coverage at each of the maturity dates for series A, B, and C would rise, in our view, significantly to 15.6x, 16.8x, and 11.6x, respectively.

The fiscal 2009 unreserved general fund balance totaled \$80.5 million, or what we consider a good 7.3% of expenditures after a \$10.4 million operating deficit equal to 1% of budget. In December 2009, officials amended the fiscal 2010 budget including savings of \$24.6 million from departmental reductions to address declining revenues and meet a general fund reserve target of 7% of expenditures. In May 2010, the city released its year-end budget monitoring report, which projects a \$7.8 million deficit in fiscal 2010 due to continued declines in revenue; city officials expect to release another report in June with expenditure adjustments to balance the budget by year-end.

The city council adopted the mayor's proposed fiscal 2011 budget in December 2009 as an early action to address an identified \$179 million budgetary gap with a combination of one-time and ongoing solutions. Since December 2009, declining revenues and an unexpected pension contribution (which is \$60 million above the city's previous estimates due to a 19% loss of retirement asset market value) led to a newly identified \$28 million budget gap for fiscal 2011. In April 2010, the mayor released his full fiscal 2011 budget that proposes to close the new operating gap in fiscal 2011 primarily with departmental savings, including a revised fee structure for vehicle usage among departments, and deferring the first annual debt service payment to fiscal 2012 for the city's anticipated financing of

a \$25 million payment related to the McGuigan Settlement. The fiscal 2011 proposed budget incorporated the solutions identified in December 2009 and assumes generally flat property tax and transient occupancy tax revenues and a 1.3% increase in sales taxes compared with estimated collections for fiscal 2010. The budget proposal maintained the general fund reserve at 7% in fiscal 2011 instead of the original 7.5% target set forth in the city's policy. In May 2010, the city released a revised fiscal 2011 budget that incorporates \$3.3 million of additional anticipated revenue offset by an additional \$3.3 million of budgeted expenditures; there was no change to the projected year-end general fund reserve in fiscal 2011.

Economy

San Diego's population of 1.38 million has risen about 1% per year since the 2000 U.S. Census. The city is a significant employment center within the county, representing about 45% of the county's total employment. The economy consists of various high-tech clusters, including biotech and telecommunications, combined with a reliance on tourism, and the military and defense industries. Its 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. Median household effective buying income is also strong, in our view, at 117% of the national average in 2008. However, given rising unemployment rates, we believe that this ratio might have moderated in the past year. According to the Bureau of Labor Statistics, the city's estimated unemployment rate has risen gradually from an annual average rate of 6% in 2008 to 9.7% in 2009. Net assessed value (AV) fell 0.62% in fiscal 2010 to \$162.6 billion, excluding redevelopment area AV, due to falling home prices between 2007 and 2009 and a rise in foreclosures in the county to about 1.25% of housing units. For fiscal 2011, the county's preliminary estimates reflect a 2% decline in countywide AV.

Related Criteria And Research

USPF Criteria: Short-Term Debt, June 15, 2007

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright (c) 2010 by Standard & Poor's Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.