

**FITCH RATES SAN DIEGO PUBLIC FACILITIES FIN
AUTHORITY, CA LEASE REV RFDG BONDS 'A+'; OUTLOOK
STABLE**

Fitch Ratings-San Francisco-30 April 2010: Fitch Ratings assigns an 'A+' rating to the following San Diego Public Facilities Financing Authority(CA) lease revenue refunding bonds:

--\$168.4 million series 2010 (Master Refunding Project).

In addition, Fitch affirms:

--\$4.3 million in outstanding San Diego general obligation (GO) bonds, series 1991 at 'AA-';

--\$8.2 million San Diego certificates of participation (1993 Balboa Park/Mission Bay Park), series 2003 at 'A+';

--\$167.6 million San Diego Public Facilities Financing Authority lease revenue bonds, series 2002B and 2007A at 'A+';

--\$11.4 million San Diego Metropolitan Transit Development Board lease revenue refunding bonds, series 2003 at 'A+';

--\$162.5 million Convention Center Expansion Financing Authority lease revenue bonds, series 1998A at 'A+'.

The ratings reflect revisions made pursuant to Fitch's recalibration of tax-supported ratings earlier today.

The Rating Outlook is Stable.

The bonds are expected to sell via negotiation during the week of May 17, 2010.

RATING RATIONALE:

--The city benefits from above-average socio-economic characteristics, a diverse economy, diverse revenue streams, and its desirable location as a place to live and work, or visit.

--While the city's largest employers are in the traditionally stable military, education, government, and health care sectors, the city's unemployment rate has risen significantly during the economic downturn.

--Simultaneously, the city's key general fund revenue sources have declined, and are projected to remain under pressure through fiscal 2011.

--Nevertheless, the city continues to demonstrate its commitment to conservative financial management policies, multiyear budget planning, midyear budget modifications, and general fund balance and reserves preservation.

--Absent revenue increases to offset rising pension payment costs, the city is delaying progress toward achieving its reserve level policy goals. However, the city is balancing its fiscal 2011 budget without eroding its reserves below fiscal 2010 levels.

--The debt burden is low to moderate, with below-average amortization.

-- As the city's general fund continues to be pressured by significant personnel costs, deterioration in the funded status of pension and retiree health plans, state funding pressures, and unmet infrastructure and maintenance needs, there will be fewer available budget options to ensure ongoing structural balance.

KEY RATING DRIVERS:

--Continued maintenance of general fund structural balance within the context of declining revenues.

--Achievement of policy target reserve levels, and elimination of existing unfunded pension and OPEB liabilities.

SECURITY:

The bonds are secured by lease payments subject to annual appropriation by the city.

CREDIT SUMMARY:

San Diego is the second largest city in California, with a population of approximately 1.3 million. While the city has diverse employment and tax revenue bases and above-average socio-economic characteristics, some of the city's largest operating revenues are declining due to decreased property values (a negative 0.6% in fiscal 2010, with no growth projected in fiscal 2011), softened tourist business and retail sales activity, and contraction in most employment sectors, coupled with a high unemployment rate of 11% in March 2010.

The city ended fiscal 2009 with an \$80.5 million unreserved general fund balance which represents 7.1% of spending. This was in line with the city's fiscal 2008 results and provides good flexibility. Despite significant expenditure reductions in fiscal 2010 to respond to marked declines in nearly all of the city's general fund revenues (except franchise fees), the city still has an \$11.2 million budget deficit to close. However, it will not need to draw down on its reserves to do so because of planned expenditure and transfer reductions.

The city has already closed a \$179.1 million budget gap for fiscal 2011 with a combination of ongoing and one-time budget adjustments, including \$24.6 million in fiscal 2010 savings set aside for fiscal 2011. However, a January 2010 annual actuarial valuation of the pension system indicated that the general fund would need to contribute \$9.8 million more than budgeted to the annually required pension contribution. The pension system's unfunded liability has increased significantly due to market losses (\$2.1 billion, up from \$1.3 billion the year prior). That, combined with lower than expected tax revenues in the first half of fiscal 2009, resulted in a further \$28.2 million budget gap which the mayor is proposing to close through further expenditure reductions and retiree health care cost savings. The city's five-year outlook forecasts operating deficits for fiscal years 2012-2015 even after assuming no personnel cost increases, which Fitch believes is unlikely. While the city has a record of solving such deficits without adversely affecting its general fund balances and reserves, the options available to it will diminish over time absent significant revenue increases.

Maintenance of required reserves at fiscal 2010 levels is a priority, but the city has postponed by one year increasing reserves levels in fiscal 2011 as had been previously planned.

The direct debt burden is low at \$411 per capita, or 0.3% of market value. Taking debt issued by overlapping entities into account, overall net debt is a more moderate \$3,496 per capita, or 2.6% of market value. Debt amortization is below average at 42% in 10 years. Debt levels are expected to remain affordable despite anticipated future debt issuances. The series 2010 refunding bonds are designed to achieve economic savings, remove an Ambac surety, and repay privately placed bonds.

Applicable criteria available on Fitch's website at 'www.fitchratings.com' includes:

--'Tax-Supported Rating Criteria,' dated Dec. 21, 2009.

--'U.S. Local Government Tax-Supported Rating Criteria', dated Dec. 21, 2009.

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

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