Municipal Secondary Market Disclosure Information Cover Sheet

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository, whether the filing is voluntary or made pursuant to Securities and Exchange Commission rule 15c2-12 or any analogous state statute.

See www.sec.gov/info/municipal/nrmsir.htm for list of current NRMSIRs and SIDs

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IF THIS FILING RELATES TO ALL SECURITIES ISSUED BY THE ISSUER OR ALL SECURITIES OF A SPECIFIC CREDIT or issued under a single indenture:

Issuer's Name (please include name of state where Issuer is located):

THE CITY OF SAN DIEGO (STATE: CALIFORNIA);

San Diego Open Space Park Facilities District No. 1 General Obligation Bonds Refunding Series 1994: CUSIP 797290

1991 General Obligation Bonds (Public Safety Communications Project): CUSIP 797236

THE CITY OF SAN DIEGO, CALIFORNIA (OBLIGOR, PURSUANT TO CERTIFICATES OF PARTICIPATION);

2003 Certificates of Participation (1993 Balboa Park/Mission Bay Park Refunding) Evidencing Undivided Proportionate Interest in Lease Payments to be Made by the City of San Diego Pursuant to a Lease with the San Diego Facilities and Equipment Leasing Corporation: CUSIP 797260

Certificates of Undivided Interest in Installment Payments Payable from Net System Revenues of the Water Utility Fund of the City of San Diego, California, Series 1998: CUSIP 797263

Certificates of Participation (Balboa Park and Mission Bay Park Capital Improvements Program) Series 1996A and Series 1996B: CUSIP 797260

PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO (STATE: CALIFORNIA);

Lease Revenue Bonds, Series 2002B (Fire & Life Safety Facilities Project): CUSIP 797299

Subordinated Water Revenue Bonds Series 2002 (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund): CUSIP 79730C

Sewer Revenue Bonds, Series 1999A and Series 1999B: CUSIP 79730A

Sewer Revenue Bonds, Series 1997 A and Series 1997B: CUSIP 797263

Taxable Lease Revenue Bonds, Series 1996A (San Diego Jack Murphy Stadium): CUSIP 797299

Sewer Revenue Bonds, Series 1995: CUSIP 79730A

Sewer Revenue Bonds, Series 1993: CUSIP 79730A

CONVENTION CENTER EXPANSION FINANCING AUTHORITY (STATE: CALIFORNIA)

Lease Revenue Bonds, Series 1998A (City of San Diego, California, as Lessee): CUSIP 79727L

CITY OF SAN DIEGO/MTDB AUTHORITY (STATE: CALIFORNIA);

2003 Lease Revenue Refunding Bonds (San Diego Old Town Light Rail Transit Extension Refunding): CUSIP 797448

Lease Revenue Bonds (1994 Refundings): CUSIP 797448

Other Obligated Person's Name (if any):____
(Exactly as it appears on the Official Statement Cover)

Provide six-digit CUSIP* number(s), if available, of Issuer: **SEE ABOVE SECTION FOR ALL CUSIP NUMBERS**

*(Contact CUSIP's Municipal Disclosure Assistance Line at 212.438.6518 for assistance with obtaining the proper CUSIP numbers.)

TYPE OF FILING:

[X] Electronic __6___ pages

Paper (no. of pages attached) _______

If information is also available on the Internet, give URL: **NOT AVAILABLE**________________________

WHAT TYPE OF INFORMATION ARE YOU PROVIDING? (Check all that apply)

A. Annual Financial Information and Operating Data pursuant to Rule 15c2-12
(Financial information and operating data should not be filed with the MSRB.)

Fiscal Period Covered:

B. Audited Financial Statements or CAFR pursuant to Rule 15c2-12Fiscal Period Covered:

C. Notice of a Material Event pursuant to Rule 15c2-12 (Check as appropriate)

1. Principal and interest payment delinquencies _____
2. Non-payment related defaults _____
3. Unscheduled draws on debt service reserves reflecting financial difficulties _____
4. Unscheduled draws on credit enhancements reflecting financial difficulties _____
5. Substitution of credit or liquidity providers, or their failure to perform _____
6. Adverse tax opinions or events affecting the tax-exempt status of the security _____
7. Modifications to the rights of security holders _____
8. Bond calls _____
9. Defeasances _____
10. Release, substitution, or sale of property securing repayment of the securities _____
11. **Rating changes__X__**

D. Notice of Failure to Provide Annual Financial Information as Required

E. Other Secondary Market Information (Specify): ________________________________

I hereby represent that I am authorized by the issuer or obligor or its agent to distribute this information publicly:
Issuer Contact:

Name_____**MARY LEWIS** _______________________________Title_____**CHIEF FINANCIAL OFFICER** _____________
Employer_____**CITY OF SAN DIEGO** ____
Address_____**202 C STREET, MAIL STATION 9A**__________City ___**SAN DIEGO**__State__**CA**__Zip Code__**92101** ____

Dissemination Agent Contact:

Name: _____**MARY LEWIS** ______________________________Title: _____**CHIEF FINANCIAL OFFICER** ____________
Employer: _____ **CITY OF SAN DIEGO** ____
Address: ______**202 C STREET, MAIL STATION 9A** ______ City: ___ **SAN DIEGO** ___State: __**CA**__Zip Code:_**92101**_
Relationship to Issuer: **DISCLOSURE REPRESENTATIVE** ___

Press Contact:
Name_____ ________________ ____________________________Title____
Employer_____ ____
Address____ ____City ____ __State______Zip Code______________________

Dated June 3, 2008

NOTICE IS HEREBY GIVEN that on May 15, 2008, Standard & Poor's Rating Services (S&P) announced that it had reinstated its underlying ratings on the City of San Diego, California's general obligation bonds, lease revenue bonds, certificates of participation, water utility revenue bonds, subordinate water utility revenue bonds, and wastewater utility revenue bonds. Specifically, S&P reinstated its "A" underlying rating and positive outlook on the City's general obligation bonds, and its "A-" underlying rating and positive outlook on the City's lease revenue bonds and certificates of participation. Also, S&P reinstated its "AA-" underlying rating and stable outlook on the City's water utility senior-lien revenue bonds and its "A+" underlying rating and stable outlook on the City's subordinate water utility revenue bonds. S&P reinstated its "A+" underlying rating and stable outlook on the City's wastewater utility revenue bonds.

Such ratings reflect only the view of such rating agency and any desired explanation of the significance of such ratings should be obtained from S&P. Such ratings are not a recommendation to buy, sell or hold any City indebtedness. Generally, a rating agency bases its ratings on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings will continue for any given period or that such ratings will not be revised downward or withdrawn entirely provided, if in the view of such rating agency, circumstances warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price or marketability of the City's obligations identified on the cover page hereof.

DATED June 4, 2008

CITY OF SAN DIEGO

By: Mary Lewis

Mary Lewis
Chief Financial Officer

Distribution: Nationally Recognized Municipal Securities Information Repositories
Wells Fargo Bank, National Association
BNY Western Trust Company
U.S. Bank, Corporate Trust Services

EXHIBIT A

Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission:

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, NJ 08558
Phone: (609) 279-3225
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Interactive Data Pricing and Reference Data, Inc.
Attn: NRMSIR
100 William Street, 15th Floor
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Standard & Poor's Securities Evaluations, Inc.
55 Water Street, 45th Floor
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STANDARD & POOR'S

RatingsDirect®

May 15, 2008

San Diego, California; Appropriations; General Obligation

Primary Credit Analyst:
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San Diego, California; Appropriations; General Obligation

Credit Profile		
San Diego		
Long Term Rating	A/Positive	Rating Assigned
San Diego Open Space Pk Dist #1, California		
San Diego, California		
SAN DIEGO OPEN SPACE PK DIST #1		
Long Term Rating	A/Positive	Rating Assigned

Rationale

Standard & Poor's Ratings Services assigned its 'A' rating, and positive outlook, to San Diego, Calif.'s general obligation (GO) bonds and its 'A-' rating, and positive outlook, to the city's lease revenue bonds and certificates of participation (COPs). The rating reflects the city's general credit characteristics and its covenant to budget and appropriate annual lease payments for various properties' use.

The positive outlook reflects the expectation that recent improvements in city management practices have begun to address the city's long-term financial challenges, as well as the expectation that the city's audited financial statements for fiscals 2007 and 2008 will be released, as planned, in the next two to seven months. Should management continue to make necessary budgetary adjustments to offset projected budgetary gaps and target structural balance and financial stability, we could raise the rating into the next category.

The ratings also reflect the city's general credit characteristics, which include:

- A very diversified economy that has exhibited continued strong growth in assessed valuation (AV), tourism spending, and employment;
- Strong income and wealth indicators;
- Good reserve levels and recent improvements in management practices; and
- A moderate overall net debt burden.

These strengths are mitigated by the city's:

- Recent housing market declines, which are likely to negatively affect future sales and property tax collections, although future tax base declines could be somewhat mitigated by the presence of undervalued properties due to Proposition 13;
- Recent late release of audited financial statements and continued identified weaknesses in internal financial controls;
- Limited revenue-raising flexibility and projected budgetary gaps over the next five years, which will require further cuts or revenue enhancements; and
- Additional deferred maintenance needs and pension and other postemployment benefits (OPEB) liabilities, which could pressure the city's general fund operations, although the overall debt burden, including pension benefits, remains manageable as a percentage of the city's tax base.

San Diego's population, estimated at 1.32 million in fiscal 2007, has grown roughly 1% per year, on average, since the 2000 U.S. Census. The economy consists of a mix of various high-tech clusters, including biotech and telecommunications, combined with a reliance on tourism and the military and defense industries. The city's 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. The city's property tax base has grown, along with new development and property appreciation, over the past five years; AV has grown by a strong 53% since fiscal 2003 to total roughly $179 billion in fiscal 2008. On a per capita basis, market values are extremely strong, at roughly $134,000, reflecting strong city wealth levels. Median household effective buying income is also strong, at 111% of the national average in 2007.

The city's major sources of general fund revenue in fiscal 2007 included property taxes (roughly 34% of general fund revenue); sales taxes (22%); transfers from other funds (13%); transient occupancy taxes (8%); franchises (6%); licenses, permits, and fines (6%); and charges for services (3%). The city spends the majority of its budget on public safety and homeland security, which represented 53% of general fund expenditures in fiscal 2007. In fiscal 2006, the city's unreserved general fund balance totaled roughly $40 million, or a good 4.8% of expenditures and transfers. In fiscal 2007, unaudited results indicate a $44 million surplus, after transfers, which boosted the unreserved general fund balance to about $85 million, or 8% of expenditures. In the current fiscal year, officials expect a roughly $20 million drawdown in fund balances to about $65 million, or roughly 6% of expenditures and transfers, due to slowing sales tax collections that are trending below budget, as well as higher unexpected costs associated with a landslide and large wildfires in October 2007. The mayor recently presented a $1.19 billion proposed general fund budget to council for fiscal 2009 that includes an assumed 7% growth rate in total general fund revenue and 6% growth in general fund expenditures compared with the fiscal 2008 budget. The proposed budget includes a $6 million contribution to reserves to meet a targeted reserve level equal to 6.5% of general fund revenues in fiscal 2009.

We consider San Diego's management practices good under our Standard & Poor's Financial Management Assessment (FMA) methodology, indicating practices exist in most areas, although not all may be formalized or regularly monitored by government officials.

Overall net debt is moderate, at roughly $4875 per capita and 3.7% of market value. Including the city's pension and OPEB liabilities, total overall net debt is still moderate, at roughly 4.5% of market value. Officials estimate that general fund deferred maintenance capital needs total up to $900 million, which they expect to fund with a combination of cash and debt. If the city covered all identified deferred maintenance needs with debt today, the debt burden, excluding pension liabilities, would increase to a still-moderate 4.4% of market value, but a high $5,570 per capita. Debt service carrying charges for GO, lease revenue bonds/COPs, loans, and capital lease obligations represented a moderate 8% of the city's general fund and debt service expenditures in fiscal 2007. Combined debt service and projected pension and retiree health benefit pay-as-you-go contributions represent an elevated 19% of the fiscal 2009 general fund budget. Amortization of existing debt is below average, with roughly 40% of principal to be retired within 10 years and 85% within 20 years. The city currently has no variable-rate debt outstanding.

In February 2004, the Securities and Exchange Commission (SEC) began investigations of the city related to disclosure practices and funding of the city's pension system. In September 2004, Standard & Poor's suspended the city's ratings based on the lack of timely reporting and insufficient information. Since that time, the city has released audited financial statements for fiscals 2003 through 2006 and has made progress toward formalizing new financial management policies, transforming its administrative structure, and improving its internal controls. Although the city acknowledges that it has additional improvements to make on its internal controls, the city has appointed an independent consultant who will continue to review and report on the city's progress over a period of three years, as agreed upon in a settlement with the SEC. The city has also established new governmental positions and committees designed to coordinate the flow of information within the city and accurate disclosure to the markets. Additionally, management indicates that the city and the pension board are on track to correct all items in a compliance statement from the IRS by June 2008 in order to avoid penalties associated with past violations of its pension system. Management expects the release of the audited fiscal 2007 comprehensive annual financial report (CAFR) in the next few months and the fiscal 2008 audit by the end of the year.

Outlook

The positive outlook reflects the expectation that recent improvements in city management practices will continue to address the city's long-term financial challenges. The outlook also reflects Standard & Poor's expectation that the city will release audited financial statements for fiscals 2007 and 2008 in the next two to seven months -- which will be free of any significant restatements -- while it continues to work on improving financial reporting and internal control. Should management continue to make necessary budgetary adjustments to offset projected budgetary gaps and target structural balance and financial stability, we could raise the rating into the next category.

Previous Investigations And Internal Controls

In November 2006, the SEC entered a cease and desist order sanctioning the city for committing securities fraud in 2002 and 2003 by failing to disclose significant future financial obligations related to pension and retiree health care benefits. In a settlement with the SEC, the city agreed to appoint an independent consultant for three years who would review the city's compliance with disclosure obligations and recommend enhancements to city policies and internal controls.

After the SEC and U.S. Attorney began investigations of the city's finances and disclosure practices in 2004, the city hired Kroll Inc., a risk-management consulting company, to conduct an independent investigation of the city's retirement system, sewer rates, and financial controls and make recommendations for reform. The Kroll investigation, completed in August 2006, detailed 121 recommendations to strengthen the city's internal controls. The city has made progress toward improving internal controls and disclosure processes and has since implemented 92 of the 121 recommendations. In its initial report of June 2007, the independent consultant recommended that the city create independent oversight of its financial reporting and strengthen its internal auditing by hiring a new permanent internal auditor and organizing the audit committee to include members with financial expertise. The independent consultant also noted that the city needed to continue to improve its internal controls, financial reporting, and training programs, as well as evaluate its disclosure process. The city has since appointed an internal auditor and created an audit committee made up of three council members and a consultant. A ballot initiative will go to voters in June 2008 to amend the city charter to reflect the role of the internal auditor, as well as a new audit committee structure, with two council members and three external community experts. Under the proposed language, the internal auditor would be appointed by the city manager (or the mayor, under the current strong-mayor form of government) and would serve for a term of 10 years, reporting to the audit committee. The ballot initiative also defines the role of the chief financial officer -- which would replace the auditor and comptroller positions -- and the independent budget analyst position. The city established a new disclosure practices working group in 2004 to evaluate the city's compliance with securities laws and ensure accurate public disclosure. However, the city acknowledges that it still has to continue to bolster internal controls, particularly in the areas of financial reporting, information technology, and internal controls. In the first annual report of the independent consultant, issued in March 2008, the consultant's recommendations included the need to increase staffing at the internal auditor's office. The report also recommended greater coordination of the city's enterprise resource planning (ERP) software implementation and its internal controls over financial reporting process improvements to enhance confidence in its financial reporting in the near term. Management expects the full implementation of new financial ERP software in January 2010 to help resolve internal control weaknesses and aid in the timely release of future financial reports.

Audit Restatements

The fiscal 2003 audit included 66 restatements of the fiscal 2002 financial statements totaling, on gross, roughly $1 billion. The restatements reduced the city's fiscal 2002 primary governmental fund balances and assets by a net $311 million. The largest restatements involved the inaccurate recording of capital assets and pension cost liabilities in the governmental activities funds. Within the general fund, the net fiscal 2002 balance declined by $783,000, primarily because of the previous inaccurate recording of $10.7 million of interfund transfers as working capital advances. This decline in the general fund balance was offset primarily by the proper accrual of $8.8 million of sales tax revenue.

Declining General Fund Balances Through Fiscal 2006

The general fund posted net operating deficits, after transfers, of $2.0 million and $5.8 million in fiscals 2003 and 2004, respectively, which reduced the unreserved general fund balance to $43 million, or a still-good 6% of expenditures and transfers in fiscal 2004. In fiscal 2005, although 12.6% growth in general fund expenditures exceeded 8.0% growth in general fund revenue, larger transfers into the general fund contributed to a smaller $174,000 net operating deficit. Transfers from other funds into the general fund increased in fiscals 2005 and 2006, primarily due to available transient occupancy tax revenues transferred from a special tourism promotion fund. In fiscal 2006, higher-than-expected property and sales tax revenue and transfers from other funds contributed to the city's first general fund operating surplus in five years. Although the total general fund balance increased by $593,000 to $61.6 million, the unreserved general fund balance declined by $3.2 million from the previous year to $40.4 million, or a still-good 4.8% of expenditures and transfers in fiscal 2006 on a GAAP basis.

Fiscal 2007 Unaudited General Fund Results And Fiscal 2008 Estimates

The fiscal 2007 audited financial statements have not yet been completed, and management expects to release the CAFR for fiscals 2007 and 2008 by the end of 2008. Based on unaudited results, higher-than-budgeted property tax revenue and transient occupancy taxes contributed to a large $44 million general fund operating surplus in fiscal 2007. City management has also focused on achieving budgetary savings by reducing budgeted positions in fiscals 2007 and 2008. Management estimates the unreserved general fund balance totaled between $80 million and $85 million on a budgetary basis at fiscal year-end 2007. Officials currently expect unreserved general fund balances of $62 million to $65 million in the current fiscal year, which ends on June 30, 2008. Contributing to the estimated

$20 million operating deficit in fiscal 2008 is the housing slowdown and declines in construction and retail sales activity, which have caused current year-end citywide sales tax estimates to remain flat compared with fiscal 2007, trending approximately 5% below fiscal 2008 budgeted levels. Furthermore, unexpected costs associated with large wildfires and a landslide in a La Jolla residential neighborhood within the fiscal year negatively affected the general fund expenditure budget. Management expects to receive $8 million from the Federal Emergency Management Agency (FEMA) in fiscal 2009 to offset a portion of the costs in fiscal 2008.

Fiscal 2009 Proposed Budget

The mayor recently presented a balanced $1.19 billion proposed general fund budget for fiscal 2009 to the council. The revenue assumptions include an assumed 8% growth rate in overall general fund revenue from current year-end fiscal 2008 estimates, including 6.0% growth in property tax revenue, a 1.7% decline in sales tax revenue, and roughly 8% growth in transient occupancy taxes; revenue estimates also include higher transfers from other funds due to a consolidation of citywide engineering and capital functions within the general fund. Despite declining home prices and rising foreclosure rates in the area, the city's fiscal 2009 property tax revenue assumptions are based on historical assessed valuation as of January 2008. The county is not planning a general rollback of AV, but is currently reviewing 3.6% of the county's 1.1 million properties because of appeals. The county's treasurer-tax collector estimates a total county delinquency rate of up to 3.5% this year after delinquencies for the first installment of property taxes due in December 2007 grew from the previous year. The city does not participate in the Teeter Plan, and continued delinquencies in fiscal 2009 could reduce property tax revenue to the city. In addition, property transfer tax revenue is likely to decline due to a slowdown in the housing market. Sales tax and transient occupancy tax revenue are also vulnerable to national and local recessionary trends. The state could also shift some public safety sales taxes to counties from the city to fund their adoption of state parole responsibilities. The city's fiscal 2009 general fund budget reflects a 6% growth in expenditures compared with the fiscal 2008 budget and includes funding for ongoing deferred maintenance and capital needs, pension, and OPEB contributions, as well as contributions to city reserves. The fiscal 2009 general fund budget also includes settled salary costs for the public safety labor groups, but excludes salary increases for the remaining three non-public safety labor groups. Due, in part, to Proposition 218, which limits the ability of city government in California to raise taxes without voter approval, and the city charter, which prohibits garbage fees levied on single-family owners, the city has limited revenue-raising flexibility. Should revenue growth fail to materialize, or should costs increase due to salary negotiations or other needs, the city will need to adjust the budget or use reserves to meet the shortfall.

Pension System

In 1996 and 2001, the city entered into agreements with the San Diego City Employee Retirement System (SDCERS) that allowed the city to make pension contributions at rates below the required funding levels, even while pension benefits were increasing. The city's actual contribution to the system from the general fund in fiscal 2003 was $42 million, or 5.6% of general fund expenditures. As system underfunding continued and investment returns declined, the pension system's total unfunded actuarial accrued liability increased to a large $1.3 billion and the funded ratio fell to a low of 65.8% in June 30, 2004. In 2006, voters approved a city charter amendment that will require future voter approval for any future increases in retirement system benefits.

Since fiscal 2006, the city has made the annual required contribution (ARC) to SDCERS; as investment earnings have improved, the funded ratio has improved to 78.8% in fiscal 2007, with a UAAL of $1.18 billion. SDCERS has also made changes in actuarial assumptions over the past couple years, including changing the funding method, excluding all excess benefit liabilities, and shortening the amortization period to 20 years from 27 years in fiscal 2009; the actuarial study assumes an 8% rate of return. Under these assumptions, the total ARC in fiscal 2009 is $162 million. The system also provides retirement benefits in excess of the maximum amount allowed by the Internal Revenue Code, which are not included in the current actuarial valuations. The city paid approximately $900,000 toward these excess benefits in fiscal 2007 and makes contributions on an annual pay-as-you-go basis. SDCERS is currently conducting a new experience study for the system, which will re-examine some of the assumptions and likely change the ARC; the future effects of the experience study are currently unknown.

There are several assumptions of the pension plan that are still in dispute, including the assumed amortization schedule, the legality of certain benefits, and effective dates for the termination of certain retirement benefits for future hires. In 2004, voters approved a city charter amendment that would require SDCERS to eliminate negative amortization by using a 15-year amortization period actuarial assumption beginning in fiscal 2009. The state attorney general's office has since issued its opinion that the city charter is unable to mandate a specific amortization schedule for the pension system; SDCERS has decided to use a 20-year amortization schedule in fiscal 2009, which builds in required contributions to eliminate negative amortization. In fiscal 2009, the city estimates the general fund portion of the contribution at $126 million, or a large 11% of budgeted expenditures. If SDCERS moved to a 15-year amortization schedule, city management estimates the ARC could increase another $10 million. There is also a continuing dispute over the legality of certain previously-granted pension benefits that were not cost neutral; however, city management plans to fund the full ARC to the pension system, according to the current actuarial study, until a legal resolution is reached. In addition, the effective date when certain retirement benefits and retiree health care benefits were eliminated for new hires is under dispute; discussions continue as to whether the effective date is legally July 1, 2005, when memorandum of understanding agreements were signed, or Feb. 16, 2007, when the ordinance was codified in the municipal code.

In December 2007, SDCERS received a compliance statement from the IRS in response to its submission under the IRS's voluntary correction program. The IRS statement cited 14 violations of the system, but did not impose penalty payments or require any retroactive contributions if the city and pension system correct the failures by June 8, 2008. In April 2008, the city council adopted the tax ordinance, which amended the retirement plan consistent with the compliance statement; city management indicates that the city and pension system are on track to comply with the requirements by the deadline to avoid potential penalties.

Other Postemployment Benefits

City employees who were hired after Oct. 6, 1980, through July 1, 2005, receive health care benefits upon retirement totaling roughly between $695 and $750 per month, depending on Medicare eligibility in fiscal 2006. The city provides limited retiree health benefits of $1,200 per year to employees who retired after July 1, 2005, and before Oct. 6, 1980. The city paid $17.7 million from its general fund in fiscal 2006 toward its annual postemployment healthcare benefit obligations. Before fiscal 2006, the city illegally used earnings generated from pension assets to fund its annual obligation to retiree health benefits, thereby increasing the city's net pension obligation.

An actuarial analysis for the city's postretirement medical benefit program (last completed as of June 30, 2007) reflects a $962 million total liability, assuming a 6.7% assumed discount rate and 30-year amortization; the ARC totals $95.5 million. In fiscal 2008, the city established an irrevocable trust fund and deposited its first $30 million toward prefunding its OPEB liability per an agreement with the California Public Employees' Retirement System. City management also budgeted $50 million in fiscal 2009 to apply toward $23 million in pay-as-you-go expenses and a partial $27 million funding of the ARC. Officials have indicated that they plan to ramp up the city's total annual contributions to fund roughly $75 million of the ARC (5.8% of the general fund budget) by fiscal 2011.

Future Capital And Financial Pressures

After several years of limited market access and minimal debt issuance, the city has an extensive capital improvement plan (CIP) driven primarily by deferred maintenance needs. Over the next five years, the city estimates that it will have up to $900 million of deferred maintenance and capital needs, excluding utility capital improvement needs. City officials expect to fund these needs with a combination of debt and pay-as-you-go cash, including roughly $40 million in Proposition 1B funding that the city received from the state for street projects. In addition to general capital needs, the city's water and sewer utilities have significant plans associated with water supply needs and regulatory concerns. However, the city intends to fund the utility capital plan with utility revenue debt. The five-year financial outlook also projects roughly $180 million of cumulative general fund pay-as-you-go expenditures related to compliance with mandates to remediate polluted urban runoff discharged into the San Diego Bay and a cumulative $75 million toward restoring the workers' compensation and public liability funds to targeted levels. The city also faces several pending lawsuits that it disclosed in its fiscal 2006 audit, with a combined estimated exposure of up to roughly $90 million.

Financial Management Assessment: 'Good'

We consider San Diego's management practices good under our Standard & Poor's FMA methodology, indicating practices exist in most areas, although not all may be formalized or regularly monitored by government officials. The city council generally performs formal budget amendments during the midyear and year-end reviews; in addition, the comptroller publicly posts and presents monthly reports on actual general fund performance to the city council's budget and finance committee. In November 2006, the city prepared its first long-term financial outlook, which projects general fund operations, revenue and expenditure trends, and future budgetary gaps for the next five years, although potential salary increases are not included in the projections. The outlook, which was last updated in January 2008, includes recommendations to correct projected general fund budgetary gaps ranging between $50 million and $85 million through fiscal 2013 based on annual revenue growth of between 2% and 4% and expenditure growth of between 3% and 7% per year. The city annually reviews its formal investment policy and presents monthly reports on investment holdings and average yield to the city council. The city adopted a formal debt management policy in November 2007 that includes maximum debt burden thresholds for GO and lease revenue debt, as well as minimum coverage level targets for revenue bonds. The city council also adopted a new general fund reserve policy in October 2007 that targets a combined emergency, unallocated and appropriated reserve equal to 8% of general fund revenue by fiscal 2012; the emergency reserve, to be used as a contingency for natural disasters or unforeseen catastrophic events, requires a minimum 5% of general fund revenue and requires a two-thirds council vote to access the reserve. Management has identified some of the city's long-term capital needs related to deferred maintenance in the capital improvement section of the annual budget. The city council is currently working on a plan to address new and existing facilities and expects to implement a new CIP policy to prioritize future capital needs by fiscal 2010.

Economy

The city's AV grew 11% in fiscal 2007 and an additional 9.4% in fiscal 2008 to $178.9 billion. The tax base is diverse; the 10 leading taxpayers represent just 4.2% of total AV and the leading taxpayer, a real estate investment company with many properties, represents just 0.89% of total AV. Although historical AV growth has been strong, the housing market in the San Diego metropolitan area has been among the hardest hit in the nation. The city's residential permit valuations declined 40% between fiscals 2005 and 2007; according to S&P/Case-Schiller Index, housing prices in the San Diego area fell by a large 19% between February 2007 and February 2008. According to the city, home sales declined 34% between January 2007 and January 2008 and county foreclosures increased 220% in the same period to 8,417, or roughly 1.5% of the county's housing units.

Despite the soft residential market, San Diego continues to be a top entertainment and leisure destination, assisted by the San Diego Padres' Petco Park in the downtown area, the successful and flourishing downtown convention center and Gaslamp Quarter, the world-famous San Diego Zoo and Wild Animal Park, Sea World Marine Park, and the city's temperate climate and proximity to neighboring Los Angeles and Mexico. Tourism is a major driver for the city's economy, which sees 32 million visitors per year. Although the occupancy rate was down slightly in 2007, hotel room rates have increased, contributing to higher transient occupancy tax revenues to the general fund totaling $80.7 million in fiscal 2007, compared with $72 million in fiscal 2006. In 2008, the city estimates that continued room rate increases have offset stable or declining occupancy rates to generate $85 million of transient occupancy tax revenues for the general fund by year-end. More than 4,000 additional hotel rooms are slated to be built through 2012 and the city estimates year-over-year overall visitor spending to increase 6.7% to $1.6 billion in 2008.

County unemployment in 2007 was a low 4.0% compared with the state's 4.9% and the nation's 4.6% levels. Leading county employers include the U.S. Navy (42,000 employees), the federal government (39,100), the state (37,100), the University of California at San Diego (24,790), San Diego Unified School District (21,703), the city of San Diego (20,700), and the county itself (18,900). Within the high-technology industry, employment opportunities are diversified among aerospace and defense, biotech, telecommunications, electronics, miscellaneous, software, and computers.

Ratings Detail (As Of May 15, 2008)		
San Diego caps imps prog certs of part (Balboa Pk & Mission Bay Pk) ser 1996A & rfdg ser 2003		
Long Term Rating	A-/Positive	Rating Assigned
San Diego rfdg certs of part (Balboa Pk & Mission Bay Pk Cap) ser 1996B		
Long Term Rating	A-/Positive	Rating Assigned
San Diego 2003 certs of part (1993 Balboa Park/Mission Bay Pk Rfdg) dtd 06/17/2003 due 11/01/2003-2023		
Unenhanced Rating	A-(SPUR)/Positive	Rating Assigned
San Diego Convtn Ctr Expansion Fing Auth, California		
San Diego, California		
San Diego Convtn Ctr Expansion Fing Auth lse rev bnds ser 1998A dtd 09/01/1998 due 04/01/2002-2018 2028		
Unenhanced Rating	A-(SPUR)/Positive	Rating Assigned

Ratings Detail (As Of May 15, 2008) **(cont.)**		
San Diego Mtdb Auth, California		
San Diego, California		
San Diego Mtdb Auth (San Diego) lse rfdg ser 94		
Long Term Rating	A-/Positive	Rating Assigned
San Diego Mtdb Auth (San Diego) (Bayside Lt Rail Trans Ext Proj) lse rev ser 89		
Long Term Rating	A-/Positive	Rating Assigned
San Diego Mtdb Auth (San Diego) 2003 lse rev rfdg bnds (San Diego Old Twn Lt Rail Transit Extension Rfdg) dtd 05/20/2003 due 06/01/2004-2023		
Unenhanced Rating	A-(SPUR)/Positive	Rating Assigned
San Diego Pub Facs Fincg Auth, California		
San Diego, California		
San Diego Pub Fac Fing Auth lse rev bnds (Fire & Life Safety Fac Proj) ser 2002B dtd 06/15/2002 due 04/01/2004-2024 2027 2032		
Unenhanced Rating	A-(SPUR)/Positive	Rating Assigned

Many issues are enhanced by bond insurance.

San Diego, California; Water/Sewer

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San Diego, California; Water/Sewer

Credit Profile		
San Diego certs of undivided int (payable from net sys revs of wtr util fd)		
Unenhanced Rating	AA-(SPUR)/Stable	Reinstated
San Diego Pub Facs Fincg Auth, California		
San Diego, California		
San Diego Pub Facs Fincg Auth (San Diego) sub wtr (MBIA)		
Unenhanced Rating	A+(SPUR)/Stable	Reinstated

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services reinstated its 'AA-' underlying rating (SPUR), and stable outlook, on San Diego, Calif.'s senior-lien water revenue bonds and its 'A+' SPUR, and stable outlook, on the city's subordinate-lien water revenue bonds.

The ratings reflect the following credit strengths:

- Good historical and projected financial performance,
- Strong cash reserves bolstered by targeted cash reserve policies,
- Council-approved system rate increases through fiscal 2011, and
- A stable and diverse service area economy and customer base.

Offsetting credit concerns include the system's:

- Significant capital improvement plan (CIP) driven by regulatory concerns, with considerable financing plans over the next five years;
- Required annual approvals for customer water charge increases related to passed-through water purchase costs; and
- Senior-lien legal provisions that allow net system revenue calculations to include transfers from the rate stabilization fund and secondary purchase funds.

A senior-lien pledge of installment payments payable from the net revenues of the city's water system secures the series 1998 certificates of undivided interest and a subordinate-lien pledge secures the series 2002 bonds.

Covering 330 square miles with a population of 1.3 million, San Diego's water system provides retail water services to a stable customer base consisting of 271,000 primarily residential (91%) and commercial or industrial (6%) accounts. The water system is supplied primarily by raw water imported by the County Water Authority (CWA, 'AA+' underlying rating (SPUR), which accounts for more than 90% of the system's water supply. CWA, in turn, received 76% of its water from the Metropolitan Water District of Southern California (MWD, 'AAA' SPUR) in 2007.

Currently the water system has roughly $745 million of outstanding revenue bonds, state revolving fund (SRF) loans, and private placement notes secured by senior and subordinate liens of the system's net revenue. Coverage of senior debt service on the series 1998 certificates by net system revenue in fiscal 2006 was 2.9x. Total combined senior and subordinate debt service -- including the 2002 bonds, debt service on SRF loans, and interest on outstanding short-term notes--was 1.7x. Based on unaudited results for fiscal 2007, system officials estimate net system income -- including operating receipts, capacity charges, and interest earning revenue -- provided senior and combined debt service coverage of roughly 3.6x and 1.9x, respectively, due to recent increases in rates and pass-through charges for purchased water. Excluding capacity charges, estimated senior and combined debt service coverage (DSC) drops to 3.0x and 1.5x, respectively. Coverage of fixed water purchase charges and combined debt service, excluding capacity charges, totaled 1.4x in fiscal 2007, based on unaudited results.

System officials project net system revenues through fiscal 2012 to cover existing debt service, excluding note principal, by roughly 1.5x to 3.0x. Actual DSC is likely to be lower as the system issues additional debt in the near term. Fiscal 2009 projections account for a 15% reduction in revenue and offsetting costs associated with proposed water conservation measures in fiscal 2009. In fiscal 2010, currently scheduled senior debt service steps down significantly as the series 1998 bonds mature.

Liquidity at fiscal year-end 2006 was a strong $155 million, equivalent to 235 days of operating expenses. Officials have identified reserve policies to maintain cash within the system, including a targeted 50- to 70-day operating reserve to be used for unplanned operating expenditures, a secondary purchase reserve funded at 6% of annual water purchase costs to offset potential disruptions in the water supply, a $5.0 million emergency reserve for capital expenditures, and a $20.5 million rate stabilization fund. The system also maintains restricted cash reserves for debt service requirements. System officials estimate that combined cash in the operation reserve, secondary fund, rate stabilization fund, and emergency reserve in fiscals 2006 and 2007 totaled $50 million, or 76 and 71 days' cash, respectively.

The system's CIP for 2008 through 2012 totals about $600 million, with about 85% of the capital project expenditures related to a California Department of Health (DPH) compliance order to fund pipe replacement, improve treated water storage, and treatment facility upgrades. The system has issued $200 million in private placement notes in 2007 and 2008 and intends to use long-term debt to pay off notes and fund 80% of the CIP. In fiscals 2007 and 2008, water rates increased 6.0% and 6.5%; the city council has already approved 6.5% annual increases for fiscals 2009 and 2010 to fund identified capital projects through 2012. The city council also approved pass-through charges to cover increased purchased water costs in fiscal 2008 and will annually determine pass-through charges for future increases in purchased water costs.

A senior-lien pledge of the water system's net revenues secures the series 1998 certificates. The senior-lien legal provisions are somewhat permissive. The senior-lien 1.2x maximum annual debt service (MADS) rate covenant allows revenues to be adjusted to include transfers from the rate stabilization fund and secondary reserve, as well as capacity charges. The senior-lien legal provisions also require 1.2x MADS coverage using either historical revenues in 12 out of the past 18 months or future revenues adjusted for rate increases and estimated revenue from expected water system additions, improvements, and extensions.

A subordinate-lien pledge of the water system's net revenues secures the series 2002 bonds. The system also has an outstanding SRF loan and issued short-term notes in 2007 and 2008 secured by a subordinate lien on parity with the series 2002 bonds. The series 2002 legal provisions allow additional bonds if the system can demonstrate at least 1x senior and subordinate MADS coverage by net system revenues (net system revenues may be adjusted for rate increases or system improvements). Legal provisions for both the senior and subordinate liens include a fully funded debt service reserve funded at the least of MADS, 10% of par, or 1.25x aggregate average annual debt service.

Outlook

The stable outlook reflects the expectation that pre-approved rate increases should help to maintain good debt service ratios in the next several years, despite the city's implementation of a large CIP associated with regulatory requirements. The outlook also reflects the expectation that pass-through charges for increased water purchase costs and future rate increases will be approved, as necessary, and the system will adhere to its cash reserve policies to maintain sufficient liquidity in the system. Should a failure to continue to meet the requirements of the compliance order result in significant deterioration of DSC or liquidity, we could lower the ratings.

Customer Profile

The water system services the city of San Diego and certain surrounding areas on a retail basis, which accounts for 94% of water sales. The remaining 6% of water revenue is derived from the delivery and treatment of water to wholesale customers: California-American Water Co. (3.5% of fiscal 2006 revenue); the city of Del Mar, Calif.; Santa Fe Irrigation District; and San Dieguito Irrigation District. The water system is also currently negotiating with Otay Water District and may fund facility improvements necessary to deliver treated water to the Otay Water District service area.

Of the system's 271,000 accounts, residential customers represent 62% of revenue, while commercial or industrial customers represent 32% of revenue; wholesale accounts represent 5% of revenue. As of fiscal year-end June 30, 2006, the 10 leading retail customers of the water system accounted for 12% of total water utility fund revenues; the city of San Diego (4.1% of water sales revenue) and the U.S. Navy (3.2%) were the two leading customers.

Operations

Current estimates indicate that the city's water supply is sufficient to meet its needs through 2030, although a federal ruling in 2007 caused the state's recent decision to limit pumping of water from the Sacramento Delta due to the endangerment of the Delta Smelt fish population. This should not present water supply problems in the short run due to MWD's large amount of banked water, although it could cause concern if dry conditions in northern California persist for extended periods of time, especially as the Colorado River basin continues to experience drought. MWD has initiated various conservation programs to reduce overall water consumption in southern California during the area's currently dry conditions. The city has also recently asked residents and businesses to adopt water conservation practices; however, in February 2008, the San Diego County Grand Jury -- a citizen group that evaluates city and county government procedures to determine whether they can be made more efficient -- filed a report with recommendations to the city council to further improve the city's water conservation measures. The city's long-range water resources plan seeks to identify future water resources to meet demand and diversify its water supply through the development of potential groundwater resources, the expansion of reclaimed water programs, and the pursuit of water transfers.

The city's water system consists of three treatment plants with a current total rated capacity of 296 million gallons per day (mgd). Average daily treatment flow for the combined water system was 202 mgd in fiscal 2006, with a peak of 286 mgd. The system also maintains nine raw water reservoirs with a total capacity of 415,936 acre-feet, or

135.5 billion gallons, which are connected to the treatment plants. The delivery and distribution system consists of more than 3,460 miles of pipeline and 49 pumping plants in more than 90 pressure zones.

Rates And Collections

As of July 1, 2007, rates were competitive, at roughly $32 for a single-family home using 7,500 gallons per month (or $48.24 per 1,400 cubic feet). The city council pre-approved rate increases for four consecutive years between fiscals 2007 and 2010 to address the system's CIP. The system will use the rate increases to fund identified projects through 2012; the pre-approved rate increases do not include additional pass-through rate increases for increased costs of purchased water from the CWA to water users. In January 2008, the council approved a 3% rate increase to cover 7% increases in water purchase costs in 2008, increasing the total water rate to $33.40 per 7,500 gallons. MWD and CWA have proposed increases to water purchase costs for fiscal 2009 that system officials expect to pass on to customers in January 2009, although pass-through water charges are subject to council approval and Proposition 218 hearings. Together with the sewer rates, overall residential rates are somewhat above average for a regional system, at roughly $75 per 7,500 gallons per month, but still a manageable 2% of the city's annual median household income.

Audit Restatements And Internal Controls

The fiscal 2003 audit included 19 restatements within the fiscal 2002 financial statements for the water utility fund, which resulted in a net $96 million increase of water utility fund assets. The largest restatements in the water utility fund involved the inaccurate recording of capital assets. After the SEC and U.S. Attorney began investigations of the city's finances and disclosure practices in 2004, the city hired Kroll Inc., a risk-management consulting company, to conduct an independent investigation of the city's retirement system, sewer rates, and financial controls and make recommendations for reform. Kroll released its report in 2006 detailing 121 recommendations to strengthen the city's internal controls. The city has made progress toward improving internal controls and disclosure processes, implementing 92 of the 121 recommendations. However, the city acknowledges it still has to continue to bolster internal controls, particularly in the areas of financial reporting, information technology, and internal controls. City management expects the full implementation of new enterprise resource planning (ERP) software in January 2010 to help resolve internal control weaknesses and aid in the timely release of future financial reports. City officials expect the release of the fiscal 2007 audited financial statements in the next few months and the fiscal 2008 audit by the end of the year.

Regulatory Issues And Capital Improvement Plan

The San Diego water system is currently under a compliance order from the DPH to implement improvements to their water system in line with Environmental Protection Agency regulations. The system's CIP is driven primarily by improvements under this compliance order which requires the system to replace 10 miles of pipeline per year, expand water treatment capacity, and improve water treatment processes. Due to the system's limited access to the financial markets after the SEC and U.S. Attorney investigations, the system has been working to keep up with the capital needs of the system under the compliance order. The system issued $200 million in privately placed short-term notes over the past couple years to continue funding of necessary capital improvements; the notes mature in 2009. The system intends to fund 80% of its CIP with debt. The failure to fund improvements and replace aging pipelines according to schedule could result in penalties or the loss of state matching dollars.

Service Area Economy

San Diego's population, estimated at 1.32 million in fiscal 2007, has grown an average of roughly 1% per year since the 2000 U.S. Census. The economy consists of a mix of various high-tech clusters, including biotech and telecommunications, combined with a reliance on tourism and the military and defense industries. The city's 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. On a per capita basis, market values are extremely strong, at roughly $134,000, reflecting strong city wealth levels. Median household effective buying income is also strong, at 111% of the national average in 2007.

STANDARD &POOR'S

RATINGSDIRECT®

May 15, 2008

San Diego, CA's Bond Ratings Reinstated Following Receipt Of Audited Financial Statements

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NEW YORK (Standard & Poor's) May 15, 2008-- Standard & Poor's Ratings Services today reinstated its 'A' underlying rating (SPUR) and positive outlook on San Diego, Calif.'s general obligation (GO) debt, and its 'A' SPUR and positive outlook on the city's lease revenue bonds and certificates of participation (COPs).

At the same time, Standard & Poor's reinstated its 'AA-' SPUR on the city's water utility revenue bonds and its 'A+' SPUR on the city's subordinate water utility revenue bonds. Finally, Standard & Poor's reinstated its 'A+' SPUR on the city's wastewater utility revenue debt.

Standard & Poor's received a request from the city of San Diego to reinstate its ratings on the city's GO, lease revenue bond and COP, water utility revenue, and wastewater utility revenue debt. The reinstatements follow our receipt of the city's fiscal 2003, fiscal 2004, fiscal 2005, and fiscal 2006 audited financial statements.

"The positive outlook on the general obligation bonds, lease revenue bonds, and certificates of participation reflects recent improvements in management practices that have begun to address the city's long-term financial challenges, and the expectation that the city's fiscal 2007 and 2008 audited financial statements will be released in the next two to seven months," said Standard & Poor's credit analyst Sussan Corson. "Should management continue to make necessary budgetary adjustments to offset projected budgetary gaps and target structural balance and financial stability, the rating could be raised into the next category."

The ratings on the city's water utility bonds reflect good historical and projected financial performance, strong cash reserves bolstered by targeted cash reserve policies, council-approved system rate increases through fiscal 2011, and a stable and diverse service area economy and customer base. Offsetting credit concerns include the system's significant capital improvement plan driven by regulatory concerns, with considerable financing plans over the next five years; required annual approvals for customer water charge increases related to passed-through water purchase costs; and senior-lien legal provisions that allow net system revenue calculations to include transfers from the rate stabilization fund and secondary purchase funds.

The rating on the city's wastewater debt reflects good historical and projected debt service coverage; a strong liquidity position supported by targeted cash reserve policies; council-approved system rate increases through May 1, 2010; and a regional and municipal system serving a broad and diverse service area economy and customer base. These strengths are offset by the wastewater system's ongoing sewage treatment regulatory challenges, related primarily to a consent decree and secondary treatment requirements at the Metropolitan Sewerage System's Point Loma Plant, which have the potential to cause significant increases in the capital improvement plan; higher-than-average rates when compared with regional systems across the country; and legal provisions that allow net system revenue calculations to include transfers from the rate stabilization fund.

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, 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; select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search.