

# 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](http://www.sec.gov/info/municipal/nrmsir.htm) for list of current NRMSIRs and SIDs

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## IF THIS FILING RELATES TO A SINGLE BOND ISSUE:

Provide name of bond issue exactly as it appears on the cover of the Official Statement (please include name of state where issuer is located):

See Below

Provide nine-digit CUSIP\* numbers if available, to which the information relates:

See Below

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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): **CITY OF SAN DIEGO, CALIFORNIA, AND OTHERS AS LISTED ON THE ATTACHED MATERIAL EVENT NOTICE**

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 THE ATTACHED MATERIAL EVENT NOTICE FOR ALL CUSIP NUMBERS**

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

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## TYPE OF FILING:

Electronic and Facsimile (Number of pages attached): 8

If information is also available on the Internet, give URL: N/A

**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 15c2-12 Fiscal Period Covered:**

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

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

**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 PATRICIA T. FRAZIER Title DEPUTY CITY MANAGER  
Employer CITY OF SAN DIEGO  
Address 202 C STREET, MAIL STATION 9A City SAN DIEGO State CA Zip Code 92101

**Dissemination Agent Contact:**

Name: PATRICIA T. FRAZIER Title: DEPUTY CITY MANAGER  
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

**Obligor Contact, if any:**

Name \_\_\_\_\_ Title \_\_\_\_\_  
Employer \_\_\_\_\_  
Address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

**Investor and Credit Relations Contact:**

Name LAKSHMI KOMMI Title DEPUTY DIRECTOR, FINANCING SERVICES  
Telephone (619) 236-6928 Fax: (619) 235-5835

**Press Contact:**

Name CARL NETTLETON Title DIRECTOR OF PUBLIC AND MEDIA AFFAIRS  
Telephone (619) 236-6851 Fax: (619) 236-6067

**MATERIAL EVENT NOTICE PURSUANT TO S.E.C. RULE 15c2-12(b)(5)(i)(C) & (D)  
OF FITCH RATINGS DOWNGRADE**

**Dated March 2, 2004**

NOTICE IS HEREBY GIVEN that on February 27, 2004, Fitch Ratings announced that it had downgraded the rating on all of San Diego, California's General Obligation bonds to 'AA', from 'AAA', and downgraded the ratings on certain outstanding certificates of participation (COP), and lease issues to 'AA-' from 'AA+'. Fitch Ratings also assigned a Negative Outlook to all the affected issuances. The following tables outline the affected issuances with respect to the change in ratings and assignment of a Negative Outlook. The attached Fitch Ratings publication dated February 27, 2004 provides additional information regarding this action.

**Ratings Downgrade**

<b>Name of Issue</b>	<b>Issue Date</b>	<b>Fitch's Rating</b>	<b>Principal Amount Outstanding as of June 30, 2003</b>	<b>6-Digit CUSIP Number</b>
City of San Diego 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	May 2003	AA- (formerly AA+)	\$17,425,000	797260
City of San Diego/MTDB Authority 2003 Lease Revenue Refunding Bonds (San Diego Old Town Light Rail Transit Extension Refunding)	April 2003	AA- (formerly AA+)	\$15,255,000	797448
Public Facilities Financing Authority of the City of San Diego Lease Revenue Bonds Series 2002B (Fire and Life Safety Facilities Project)	June 2002	AA- (formerly AA+)	\$25,070,000	797299
Convention Center Expansion Financing Authority Lease Revenue Bonds Series 1998A (City of San Diego, California, as Lessee)	September 1998	AA- (formerly AA+)	\$196,810,000	79727L

**MATERIAL EVENT NOTICE PURSUANT TO S.E.C. RULE 15c2-12(b)(5)(i)(C) & (D)  
OF FITCH RATINGS DOWNGRADE**

**Ratings Downgrade (Continued)**

<b>Name of Issue</b>	<b>Issue Date</b>	<b>Fitch's Rating</b>	<b>Principal Amount Outstanding as of June 30, 2003</b>	<b>6-Digit CUSIP Number</b>
San Diego Open Space Park Facilities District No. 1 General Obligation Bonds Refunding Series 1994	May 1994	AA (formerly AAA)	\$36,475,000	797290
City of San Diego, California 1991 General Obligation Bonds (Public Safety Communications Project)	March 1991	AA (formerly AAA)	\$15,690,000	797236

**Outlook Change ("Negative")**

<b>Name of Issue</b>	<b>Issue Date</b>	<b>6-Digit CUSIP Number</b>
City of San Diego 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	May 2003	797260
City of San Diego/MTDB Authority 2003 Lease Revenue Refunding Bonds (San Diego Old Town Light Rail Transit Extension Refunding)	April 2003	797448
Public Facilities Financing Authority of the City of San Diego Lease Revenue Bonds Series 2002B (Fire and Life Safety Facilities Project)	June 2002	797299

**MATERIAL EVENT NOTICE PURSUANT TO S.E.C. RULE 15c2-12(b)(5)(i)(C) & (D)  
OF FITCH RATINGS DOWNGRADE**

**Outlook Change (“Negative”) (Continued)**

<b>Name of Issue</b>	<b>Issue Date</b>	<b>6-Digit CUSIP Number</b>
Convention Center Expansion Financing Authority Lease Revenue Bonds Series 1998A (City of San Diego, California, as Lessee)	September 1998	79727L
San Diego Open Space Park Facilities District No. 1 General Obligation Bonds Refunding Series 1994	May 1994	797290
City of San Diego, California 1991 General Obligation Bonds (Public Safety Communications Project)	March 1991	797236

CITY OF SAN DIEGO

By:   
PATRICIA T. FRAZIER  
Deputy City Manager

**MATERIAL EVENT NOTICE PURSUANT TO S.E.C. RULE 15c2-12(b)(5)(i)(C) & (D)  
OF FITCH RATINGS DOWNGRADE**

Distribution:

Municipal Securities Rulemaking Board

Bloomberg Municipal Repository

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US Bank, N.A. (Trustee)

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Ambac Assurance Corporation (Insurer)

MBIA Insurance Corporation (Insurer)

FGIC (Insurer)

# **Fitch Dwngrs \$476.4MM City of San Diego, CA GOs, COPs & Lease Revs; Negative Outlook**

Fitch Ratings-San Francisco-February 27, 2004:

Fitch Ratings downgrades the City of San Diego, California's \$52.2 million general obligation bonds to 'AA' from 'AAA' and also downgrades to 'AA-' from 'AA+' roughly \$424.2 million in certain outstanding certificates of participation (COP), and lease issues as detailed below.

The following COP's and lease revenue bonds are affected by the downgrade:

--City of San Diego (1993 Balboa Park/Mission Bay Park Refunding), certificates of participation, series 2003;

--City of San Diego/MTDB Authority's 2003 lease revenue refunding bonds (San Diego Old Town Light Rail Transit Extension Refunding);

--Public Facilities Financing Authority of the City of San Diego, lease revenue bonds, series 2002 (Ballpark Project);

--Public Facilities Financing Authority of the City of San Diego, lease revenue bonds, series 2002B (Fire & Life Safety Facilities Project); and

--Convention Center Expansion Financing Authority, lease revenue bonds, series 1998A.

Fitch also assigns a Negative Rating Outlook to these bonds and certificates. In addition, Fitch withdraws the 'A+' rating on the San Diego Metropolitan Wastewater Department, subordinated sewer revenue bonds, series 2003A and 2003B, which were initially rated in September 2003. The rating is withdrawn as the proposed offering is delayed indefinitely.

Fitch's downgrade reflects the city's rising pension funding costs and subsequent reduced financial flexibility. These costs may rise even further based on the outcome of pending litigation by a group of city retirees. In addition, Fitch is concerned about recent city disclosures of numerous errors in a prior year's annual financial statement, now the subject of a preliminary investigation by the Securities Exchange Commission and U.S. Attorney's Office.

The San Diego City Employees Retirement System (CERS) funded ratio has declined from 93.3% to 67.2% between 1997 and 2003 a level which is below current national averages. This funding level equates to a nearly \$1.2 billion unfunded liability for which the city's general fund is attributed 78% on a pro rata basis. While the city's contributions are in

accordance with 1996 and 2002 agreements between the city and the CERS board, poor investment returns related to weak market performance, benefits increases, and demographic changes have all contributed to this rapid deterioration. However, the CERS board and the city differ on their interpretation of agreements.

As a result, the city's future annual pension plan contribution obligations are expected to rise dramatically and add considerable stress to the city's financial position. The city's general fund balance declined for a second straight year for the fiscal year ending June 30, 2003, falling \$7.9 million to \$62.1 million; this amount still represents an above average 9% of total spending.

Assuming no further action is taken, CERS funded ratio will remain below 70% for the foreseeable future. This scenario includes dramatic increases in annual pension fund payments out of the city's general fund including a 35% increase in fiscal 2005 to \$115 million, followed by 20%-27% annual increases through 2009. While the city retains options such as issuing pension obligation bonds or limiting future retiree benefits, the city's long-term financial status could weaken.

In addition, a class action suit by current retirees alleges that the city's and CERS's current funding agreements violate the city charter. The city asserts that both a 1996 and 2002 agreement conforms with charter requirements, albeit below the actuarial determined rate. Negotiations are ongoing between the city and plaintiffs; however, the city's liability remains unknown and could be substantial.

Finally, the city is the subject of preliminary investigations by both the Securities Exchange Commission and U.S. Attorney's Office following the disclosure of numerous errors in the footnotes to the city's fiscal 2002 annual financial report. Both internal and external auditors have found these reporting errors not to be material. The city has prudently begun to take a more formalized approach aimed at avoiding footnote reporting errors in the future. The city is cooperating fully with the investigations, which are in the document-gathering phase.

In spite of the downgrade, certain fundamental credit strengths remain including the city's strong economic performance and low debt burden. San Diego's finances continue to benefit from the area's good and improving economic condition and a diverse revenue base.

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