

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

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

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**

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: **797236, 797260, 797448, 797299, 79727L, AND 797290**

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

TYPE OF FILING:

Electronic and Facsimile (Number of pages attached): **7 PAGES (INCLUDING THIS COVER SHEET)**

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 _____ |
| | 11. Rating changes <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 P. LAMONT EWELL Title 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: P. LAMONT EWELL Title: 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 _____ Title _____
Telephone _____ Fax: _____

Press Contact:

Name GINA LEW 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)
OF MOODY'S INVESTORS SERVICE RATINGS DOWNGRADE**

Dated September 27, 2004

NOTICE IS HEREBY GIVEN that on September 24, 2004, Moody's Investors Service announced that it had downgraded its ratings on all City of San Diego, California's general obligation bonds to 'A1', from 'Aa3'. The ratings on the City's other general fund obligations have been correspondingly downgraded as listed in the attached Moody's Investors Service publication dated September 24, 2004. Moody's outlook on the City's ratings is revised from Stable to Negative. The attached publication, dated September 24, 2004, provides additional information regarding this action.

CITY OF SAN DIEGO
By: 
P. LAMONT EWELL
City Manager

**MATERIAL EVENT NOTICE PURSUANT TO S.E.C. RULE 15c2-12(b)(5)(i)(C)
OF MOODY'S INVESTORS SERVICE RATINGS DOWNGRADE**

Distribution:

Municipal Securities Rulemaking

Via DisclosureUSA:

Bloomberg Municipal Repository

DPC Data Inc.

FT Interactive Data

Standard & Poor's J. J. Kenny Repository

BNY Western Trust Company (Trustee)

Wells Fargo Bank, N.A. (Trustee)

Ambac Assurance Corporation (Insurer)

MBIA Insurance Corporation (Insurer)

Stone & Youngberg, LLC (Underwriter)

**Rating Update: REVISED: MOODY'S DOWNGRADES CITY OF SAN DIEGO GO BONDS TO A1
FROM Aa3**

Global Credit Research - 24 Sep 2004

RATING OUTLOOK NEGATIVE

Municipality
CA

Opinion

NEW YORK, Sep 24, 2004 -- Moody's Investors Service has downgraded the City of San Diego General Obligation Bonds to A1 from Aa3. The ratings on the city's other general fund obligations have been correspondingly downgraded as listed below. Our outlook on the city's ratings is now negative. The downgrade reflects new information that has come to light since our prior rating action. This information has led us to conclude that the city's finances were far less conservatively and carefully managed than we had previously believed. In addition, heightened public scrutiny and an uncertain political environment are continuing to narrow the city's options for responding to a difficult long-term problem. Notwithstanding the city's financial and management challenges, its ratings remain strong reflecting its healthy local economy, moderate debt profile, and narrow but adequate reserves. Moody's notes that the city's liquidity is also satisfactory, although less robust than we had previously believed. The negative outlook on the city's ratings reflects the likelihood that the city will feel heightened pressure to absorb significant expenditure increases into its general fund budget in coming years. The city has yet to evaluate the financial implications of the recently released reports, and uncertainty remains with respect to the pending release of its fiscal 2003 audit report, which we now believe may also contain recommendations with financial implications. The outstanding SEC and US Attorney's office investigations, about which little is known, contribute to the uncertainty. This report focuses on rating factors that have arisen in recent weeks; for a complete discussion of the factors affecting the City's ratings please consult Moody's Ratings Update published August 10, 2004.

MANAGEMENT PRACTICE OF DIVERTING PENSION SYSTEM EARNINGS AGGRAVATED UNDERFUNDING RESULTING FROM ANNUAL CONTRIBUTIONS BELOW ACTUARIAL REQUIREMENT

By agreement with its retirement system's Board, since 1996 the city has been making less than actuarially required contributions (ARC) to its pension system. Two recently released reports revealed management practices which compound the problem caused by this underpayment. The recently released Report on Investigations undertaken by Vinson & Elkins L.L.P. and the Final Report of the city of San Diego's Pension Reform Committee (PRC) both made clear that the city has been diverting "surplus earnings" of the system to payment of contingent benefits. These benefits include amounts due pursuant to a legal settlement (the Corbett settlement) which requires that if earnings are not available in a given year, the amount payable will be accrued. The cost of this benefit is approximately \$5.5 million per year. Other benefits funded by system earnings include an annual lump-sum payment to retirees known as the "13th check," a Cost of Living Adjustment, and retiree health benefits.

These contingent benefits have not been factored into the calculation of the pension system's unfunded liability. If the contingent benefits continue to divert "surplus earnings" from the system, even a return to payment at the ARC level by the city would not be sufficient to fully restore the system's funding status. Our diminished view of the city's management reflects the fact that management engaged in this practice seemingly without recognizing and certainly without addressing the long-term stress that diversion of system earnings would place on the pension system, and ultimately on the General Fund.

MANAGEMENT ERRORS CONTRIBUTED TO LESSENED FINANCIAL FLEXIBILITY

The recently released reports reveal a pattern of mostly minor errors made by management. The Report on Investigations, like the ongoing audit of the city's fiscal 2003 financial report, was triggered by errors found in the footnotes of the city's 2002 audit. The Report on Investigations, however, also identified a significant error pertaining to pension system funding: management failed to make a necessary change in the city's charter to accommodate the underpayment of ARC which commenced in 1996. This failure later resulted in a lawsuit, the settlement of which established the terms under which the city will make its pension contributions through fiscal 2008. The city is still in the process of addressing the challenges posed by this settlement.

CITY'S LIQUIDITY REMAINS ADEQUATE THOUGH WEAKER THAN PREVIOUSLY THOUGHT; FINANCIAL CHALLENGES PERTAIN TO LONG-TERM LIABILITIES

As evident from the city's current ratings, Moody's does not believe that the city is in danger of declaring bankruptcy, as has been suggested in recent news reports. The city's liquidity, though narrow, is adequate and its underfunding of its pension system is fundamentally a manageable, long-term problem. Ending cash balances in the General Fund for fiscal 2004 represented 4.7% of receipts, down from 5.7% in fiscal 2003 but still sufficient to have addressed likely contingencies. In lieu of issuing a TRAN this year, as it has in prior years, the city entered into a Note Purchase Agreement with the Bank of America which allows for cash-flow borrowing of up to \$129 million. The city's cash flow projections, which in recent years have generally proven accurate, only indicate a need for \$114 million. Current projections show cash balances at the end of fiscal 2005 representing 7.3% of receipts.

The downgrade of the city's long-term ratings incorporates the fact that the overall liquidity of the General Fund is narrower than we had previously been led to believe. Our recent conversations with the city have indicated that the General Fund's ability to borrow from the treasury pool is significantly limited. The city's charter limits the amount that the General Fund may borrow to the amount of property taxes then receivable; the city has not developed a clear legal definition of this limit as no such loan has ever seriously been contemplated. Clearly, however, the amount that may be borrowed would diminish over the course of the year, providing little additional liquidity toward the end of the fiscal year.

Moody's long-term ratings on the City's various obligations remain strong, reflecting favorable fundamental credit factors. While audited figures are not yet available, and may not be for a while longer, draft audited results indicate that the city's financial position in fiscal 2003 is in line with

previous expectations. No significant change is suggested either by budget basis results for fiscal 2004 or by results to date for fiscal 2005. The city is faced with the multi-year challenge of improving the funded status of its pension system within a structurally balanced budget. In the past the city has not been able to make the decisions necessary to arrive at this position; while perhaps limiting the options available to the city, public scrutiny also may increase the pressure upon the city to make those decisions.

Outlook

The negative outlook on the city's ratings is based upon the facts that additional financial challenges may result from the resolution of a number of outstanding issues, and that the city's options for addressing these is increasingly limited. The city is currently evaluating the financial implications, for the current and future years, of the Report on Investigations and the Final Report of the PRC. The Report on Investigations, coupled with conversations with city staff, suggest that the KPMG audit also may include specific recommendations; these too may have financial implications. Finally, investigations by the Securities and Exchange Commission and the U.S. Attorney's Office are still outstanding. The negative outlook reflects the fact that the city's actions with respect to any recommendations likely will be subject to heightened public scrutiny and potentially may generate controversy, which at the very least will lengthen the amount of time it takes for the city to adopt and implement a financial plan.

OBLIGATIONS AFFECTED BY THE CURRENT RATING ACTION

The following are the city obligations carrying unenhanced or underlying ratings that are affected by this rating action, and the amount of debt outstanding as of fiscal year end 2004:

General Obligation Bonds (downgraded to A1 from Aa3):

1994 - Open Space Park Refunding Bonds (\$31.4 million)

1991 - Public Safety Communications Bonds (\$14.4 million)

Certificates of Participation and Lease Revenue Bonds (downgraded to A3 from A2):

2003 - 1993 Balboa Park/Mission Bay Park Refunding (\$16.9 million)

2003 - 1993 City/MTDB Lease Revenue Refunding Bonds (\$15.0 million)

2002B - Fire and Life Safety Facilities Project (\$24.7 million)

1998A - Convention Center Expansion (\$192.5 million)

1996 A and B - Balboa Park/Mission Bay Park Capital Improvements and Refunding (\$30.4 million)

1994 - City/MTDB Lease Revenue Refunding Bonds (\$21.8 million)

Certificates of Participation and Lease Revenue Bonds (downgraded to Baa1 from A3):

1996A (Taxable) - Jack Murphy Stadium (\$62.9 million)

Analysts

Dari Barzel
Analyst
Public Finance Group
Moody's Investors Service

Eric Hoffmann
Backup Analyst
Public Finance Group
Moody's Investors Service

Kenneth Kurtz
Director
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653



© 2010 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S ("MIS") CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS

CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.