

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 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):

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

SEWER REVENUE BONDS, SERIES 1995

SEWER REVENUE BONDS, SERIES 1997A AND SERIES 1997B

SEWER REVENUE BONDS, SERIES 1999A AND SERIES 1999B

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:

PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO, CALIFORNIA related CUSIP: 79730A

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

TYPE OF FILING:

Electronic: 7

Paper _____

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 15c2-12 Fiscal 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 XXX

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:

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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: _____

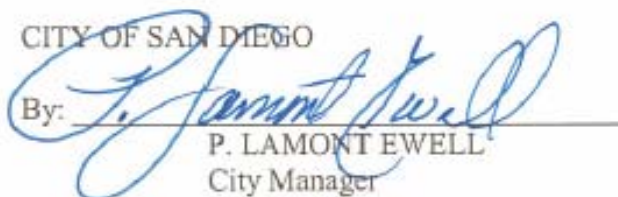
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**MATERIAL EVENT NOTICE PURSUANT TO S.E.C. RULE 15c2-12(b)(5)(i)(C)
OF MOODY'S INVESTORS SERVICE RATINGS DOWNGRADE**

Dated August 3, 2005

NOTICE IS HEREBY GIVEN that on August 2, 2005, Moody's Investors Service announced that it had downgraded its ratings on all City of San Diego, California's Sewer Revenue Bonds to 'A3' from 'A1'. Moody's ratings also reflect a Negative outlook on all the affected issuances. The attached Moody's Investors Service publication, dated August 2, 2005, 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**

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Municipal Securities Rulemaking Board

Via DisclosureUSA:

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Rating Update: San Diego (City of) CA Sewer Enterprise

MOODY'S DOWNGRADES CITY OF SAN DIEGO SEWER REVENUE BONDS TO A3 FROM A1

Rating Outlook Is Negative

Water/Sewer
CA

Opinion

NEW YORK, Aug 2, 2005 -- Moody's has downgraded to A3 from A1 the rating on the City of San Diego's Sewer Revenue Bonds. The rating action stems from indications that financial performance has weakened moderately in fiscal 2003 and that debt service coverage is expected to remain lower than previously anticipated. The enterprise's reliance upon connection fees, though not excessive, also takes on more significance as coverage levels fall. The current rating incorporates the sewer enterprise's compliance with all regulatory requirements. The fundamental strength of the enterprise remains a key credit factor, including its essentiality and its large, strong, and diverse service area, which together provide a high degree of revenue stability. The negative outlook reflects the possibility that financial results may prove to have weakened more significantly than anticipated since the audited results of fiscal 2002, and that continued lack of access to the bond market could result in further financial challenges over the medium term.

FINANCIAL RESULTS APPEAR TO BE NARROWING; RESERVE LEVELS STABLE

Operating income was strong in fiscal 2002; preliminary results presented by the enterprise indicate a significantly smaller operating surplus in fiscal 2003. In fiscal 2003 operating expenses increased as a result of both ongoing and one-time costs. Debt service coverage had exceeded 2.0x in fiscal years 1998 through 2001, falling to 1.48x in the following year before rising again to 1.88x. The preliminary results suggest that coverage decreased in fiscal 2003 to the lowest level in over five years, although this result was above the conservative estimates presented in 2003 of 1.26x. At that time projections for subsequent years were for coverage at approximately 1.15x, although Moody's noted that the rating was based upon our assumption that actual results would outperform projections. The city has indicated that coverage for fiscal years 2004 and 2005 are expected to be lower than the fiscal 2003 result, well below the levels maintained in the late 1990's. Moody's also notes that between fiscal 1998 and 2002, connection fees accounted for between 10% and 20% of total debt service coverage. As coverage levels decrease, reliance of the sewer enterprise on connection fees could become a more significant credit negative.

A key source of uncertainty with regard to the financial position of the sewer enterprise is the absence of final audited figures for fiscal 2003, of preliminary audited figures for 2004, and of comparable information for fiscal 2005; this has left a very long period for which no externally validated information is available. Timing for the release of fiscal 2003 and 2004 audited financials remains uncertain, as it is dependent in part upon the outcome of various investigations. (For a detailed discussion of these, please see the August 2005 Rating Update for the City of San Diego.) Because of the investigations into the city's disclosure practices and the absence of audited financial reports since fiscal 2002, the sewer enterprise has been unable to access the bond market for funding. In order to complete key elements of its capital improvement program (CIP) the sewer enterprise has obtained an interim subordinate loan from Bank of America for \$152 million at a variable interest rate based upon LIBOR; the spread over LIBOR increases after December 2005 and quarterly principal payments are required beginning in March 2006. This loan matures in December 2007. Until the loan is repaid no additional borrowing is permitted except with permission of the lender. Moody's notes that with this loan the enterprise faces refinancing risk and/or significantly increased debt service costs.

Auditors working on the fiscal 2003 audit have made prior period adjustments to the fiscal 2002 figures for the sewer enterprise, as they have for the city as a whole. These adjustments primarily affect depreciation expense, recognition of expense pertaining to cancelled projects, and pension costs of the enterprise. The sewer enterprise has been contributing its full actuarial annual required pension contribution, although recalculations of benefit costs have resulted in a net pension obligation. This obligation is expected to have been paid off by fiscal year end 2005.

The sewer enterprise continues to have satisfactory liquidity. Audited results for fiscal 2002 show a rate stabilization fund totaling \$45 million, operating reserves of \$22.2 million, and an emergency capital fund of \$5 million. Preliminary indications are that these reserves were maintained or increased in fiscal 2003. While no audited information is available for the intervening years, the budget for fiscal 2006 includes full funding of

the operating reserves at 45 days and a level amount in the emergency capital reserve. The rate stabilization fund also is budgeted to remain level, although a drawdown in fiscal 2006 may be possible.

The flexibility of the sewer enterprise is likely to have decreased somewhat, at least in the near term, as a result of the management and political changes occurring within the city. (Again, for details please see the August 2005 Rating update for the City of San Diego.) Were the city to need to take swift action, for example to increase rates in response to financial stress, it is unlikely this could be effected in the short term. However, a new rate structure for sewer service fees was adopted in 2004 in order to bring the enterprise into full compliance with State Water Resources Control Board requirements.

ENTERPRISE COMPLIANT WITH ALL REGULATORY REQUIREMENTS

The system is in compliance with all regulatory requirements. While the sewer enterprise has suspended the current capital improvement program (CIP) because of lack of access to the bond market, this suspension is not expected to affect its regulatory standing. San Diego's sewer enterprise provides collection, transportation, treatment, and disposal services. The capacity of the treatment system is 255 million gallons per day (MGD), 15 MGD from its South Bay Water Reclamation Plant which discharges secondary-treated effluent through an ocean outfall, and 240 MGD from its Point Loma treatment plant. The Point Loma plant disposes of its effluent through a second 4.5 mile long ocean outfall that discharges treated sewage effluent at a depth of 320 feet of water. As a result, it is one of five large urban systems nationwide which is permitted to provide a lower treatment level than is required of almost all other treatment plants in the country ("advanced primary" treatment vs. "secondary"). It does so pursuant to a Modified Waiver. The system is in full compliance with the Modified Waiver, and its permit has been renewed by EPA through 2008.

The enterprise's collection system has dramatically decreased the total number of sewer spills, from 365 in calendar 2000 to 127 in 2004. No regulatory penalty has been incurred as a result of the spills. The City had been sued by the EPA and Baykeeper, but recently completed negotiations of a partial consent decree that covers all issues through June 2006. In the consent decree the enterprise agrees to complete all collection system improvements that had been under contract as of December 2004. Compliance with this consent decree involves \$134 million in capital improvement projects and \$53 million in operations and maintenance expense, all of which has been funded.

Because of its inability to access the bond market the enterprise has delayed all aspects of its CIP effective December 2004, excluding those pertaining to the consent decree. The delay is not expected to affect operating revenues, expenses, or regulatory compliance in the near term. If funding is not available by fiscal year end 2007, however, delayed replacement of deteriorating portions of the system could result in increased maintenance and repair costs. Over the longer term, escalation of construction costs also is a risk.

LARGE, STRONG AND DIVERSE SERVICE AREA

The ratings on the sewer revenue bonds are in large part based upon the size, diversity and economic strength of the system's service area. San Diego's wastewater enterprise provides collection, treatment, and disposal services within the city limits (the "municipal system") and treatment and disposal services to many of the surrounding communities ("participating agencies" in the "metropolitan system"). The municipal system accounts for about two-thirds of the metropolitan system's total flows. The largest participating agency represents less than 9% of the flow. In fiscal 2004 single family domestic customers accounted for 36% and other domestic customers added 22% of sewer service charge revenues (unaudited), while commercial/industrial customers represented another 22%. There are no dominant customers within the municipal system; the largest is the U.S. Navy, which accounted for 3.28% of fiscal 2004 revenues (unaudited) and all others account for less than 1% each.

The city's economy and tax base have exhibited strong and steady growth since the late-1990's. Real estate prices in the city continue to rise, and assessed value (AV) has increased at a healthy rate. In six out of the seven years between fiscal 1999 and 2006 AV increased approximately 8.5%, with the seventh year rising at 10.8%. Growth in fiscal 2005 was the slowest over that period, as AV rose by 8.1% to \$117.7 billion. Preliminary indications are that growth in fiscal 2006 may be slowing to more sustainable rates.

The local economy is characterized by high technology industries including telecommunications, software development, biotechnology and electronics, as well as manufacturing, professional services and international trade. Tourism also is a major contributor to the local economy. The local economy performed well even through the last recession, maintaining positive employment growth. The unemployment rate has declined from a high of 5.8% in July 2003 (still low by comparison with the statewide rate of 6.9%) to 4.5% in June 2004 which is well below the 5.4% rate for the state as a whole. Tourism, which remained strong in 2004 by comparison with the nation and the state, is expected to remain stable in 2005. The military historically has been an important presence in the local economy, but the recent Base Realignment and Closure recommendations include a direct loss of 1,205 positions, which would also have a multiplier effect on non-military jobs. Nonetheless, in the context of total employment in the city this loss is not likely to have a material effect on the economy overall. Given the city's location on the U.S.-Mexican border, the local economy is expected to benefit significantly from the recently passed Central America Free Trade Agreement (CAFTA).

Outlook

The negative outlook reflects the possibility that financial results may prove to have weakened more significantly than anticipated since the audited results of fiscal 2002. The outlook also recognizes that continued lack of access to the bond market could result in increased debt service, operating, repair and replacement costs resulting in further financial challenges over the medium term.

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