

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 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.)

TYPE OF FILING:

Electronic and Facsimile (Number of pages attached): 15

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 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 STANDARD & POOR'S RATINGS SERVICES RATINGS DOWNGRADE**

Dated February 27, 2004

NOTICE IS HEREBY GIVEN that on February 23, 2004, Standard & Poor's Ratings Services announced that it had lowered the rating on all of San Diego, California's general obligation bonds to 'AA-', from 'AA', and lowered the general fund-backed lease ratings (and where insured, the underlying ratings ("SPUR")), to 'A+' from 'AA-', and placed all outstanding bonds and short-term notes, including those issued by all city entities (except the Housing Authority and Area Housing and Finance Agency) on behalf of the city, on CreditWatch with negative implications. The attached Standard & Poor's Ratings Services publication dated February 23, 2004 provides additional information regarding this action.

Ratings Downgrade

Name of Issue	Issue Date	Standard & Poor's Rating	Principal Amount Outstanding as of June 30, 2003	6-Digit CUSIP Number
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	AAA/A+(SPUR) (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	AAA/A+(SPUR) (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	AAA/A+(SPUR) (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	AAA/A+(SPUR) (formerly AA-)	\$196,810,000	79727L
Public Facilities Financing Authority of the City of San Diego Taxable Lease Revenue Bonds Series 1996A (San Diego Jack Murphy Stadium)	December 1996	AAA/A (formerly A+)	\$63,945,000	797299

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OF STANDARD & POOR'S RATINGS SERVICES RATINGS DOWNGRADE**

Ratings Downgrade (Continued)

Name of Issue	Issue Date	Standard & Poor's Rating	Principal Amount Outstanding as of June 30, 2003	6-Digit CUSIP Number
City of San Diego, California Certificates of Participation (Balboa Park and Mission Bay Park Capital Improvements Program) Series 1996B	July 1996	A+ (formerly AA-)	\$10,150,000	797260
City of San Diego, California Certificates of Participation (Balboa Park and Mission Bay Park Capital Improvements Program) Series 1996A	July 1996	A+ (formerly AA-)	\$22,880,000	797260
San Diego Open Space Park Facilities District No. 1 General Obligation Bonds Refunding Series 1994	May 1994	AA- (formerly AA)	\$36,475,000	797290
City of San Diego/MTDB Authority Lease Revenue Bonds (1994 Refunding)	April 1994	A+ (formerly AA-)	\$28,320,000	797448
City of San Diego, California 1991 General Obligation Bonds (Public Safety Communications Project)	March 1991	AA- (formerly AA)	\$15,690,000	797236

CreditWatch

Name of Issue	Issue Date	6-Digit CUSIP Number
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

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

CreditWatch (Continued)

Name of Issue	Issue Date	6-Digit CUSIP Number
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
Convention Center Expansion Financing Authority Lease Revenue Bonds Series 1998A (City of San Diego, California, as Lessee)	September 1998	79727L
Public Facilities Financing Authority of the City of San Diego Taxable Lease Revenue Bonds Series 1996A (San Diego Jack Murphy Stadium)	December 1996	797299
City of San Diego, California Certificates of Participation (Balboa Park and Mission Bay Park Capital Improvements Program) Series 1996B	July 1996	797260
City of San Diego, California Certificates of Participation (Balboa Park and Mission Bay Park Capital Improvements Program) Series 1996A	July 1996	797260
San Diego Open Space Park Facilities District No. 1 General Obligation Bonds Refunding Series 1994	May 1994	797290
City of San Diego/MTDB Authority Lease Revenue Bonds (1994 Refunding)	April 1994	797448

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CreditWatch (Continued)

Name of Issue	Issue Date	6-Digit CUSIP Number
City of San Diego, California 1991 General Obligation Bonds (Public Safety Communications Project)	March 1991	797236
City of San Diego, California 2003-04 Tax Anticipation Notes Series A	June 2003	797236
Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Bonds, Series 2002 (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund)	October 2002	79730C
Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds Series 1999 A and Series 1999 B (Payable Solely from Installment Payments Secured by Wastewater System Net Revenues)	March 1999	79730A
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	August 1998	797263
Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds Series 1997 A and Series 1997 B (Payable Solely from Installment Payments Secured by Wastewater System Net Revenues)	February 1997	79730A
Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds Series 1995 (Payable Solely from Installment Payments Secured by Wastewater System Net Revenues)	December 1995	79730A
Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds Series 1993 (Payable Solely from Installment Payments Secured by Wastewater System Net Revenues)	September 1993	79730A

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CreditWatch (Continued)

Name of Issue	Issue Date	6-Digit CUSIP Number
Redevelopment Agency of the City of San Diego North Park Redevelopment Project 2003 Housing Set-Aside Tax Allocation Bonds Series A (Taxable) Series B (Tax-Exempt)	December 2003	797300
Redevelopment Agency of the City of San Diego City Heights Redevelopment Project 2003 Housing Set-Aside Tax Allocation Bonds Series A (Taxable) Series B (Tax-Exempt)	December 2003	797300
Redevelopment Agency of the City of San Diego Horton Plaza Redevelopment Project Tax Allocation Bonds Series 2000	November 2000	797300
Redevelopment Agency of the City of San Diego North Bay Redevelopment Project Tax Allocation Bonds Series 2000	October 2000	797300
Redevelopment Agency of the City of San Diego North Park Redevelopment Project Tax Allocation Bonds Series 2000	October 2000	797300
Redevelopment Agency of the City of San Diego Central Imperial Redevelopment Project Tax Allocation Bonds Series 2000	April 2000	797300
Redevelopment Agency of the City of San Diego, California Centre City Redevelopment Project Parking Revenue Bonds Series 1999 A	December 1999	797300

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CreditWatch (Continued)

Name of Issue	Issue Date	6-Digit CUSIP Number
Redevelopment Agency of the City of San Diego Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds Series 1996 A & 1996 B	May 1996	797300
Redevelopment Agency of the City of San Diego Southcrest Redevelopment Project Tax Allocation Bonds Series 1995	June 1995	797300

CITY OF SAN DIEGO

By: *Patricia T. Frazier*
PATRICIA T. FRAZIER
Deputy City Manager

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Distribution:

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Research:

San Diego, California

Publication date: 23-Feb-2004

Credit Analyst: Paul Dyson, San Francisco (1) 415-371-5079;
Gabriel Petek, San Francisco (1) 415-371-5042

Credit Profile

DOWNGRADED

	To	From
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San Diego Mtdb Auth, California

\$15.255 mil. San Diego Mtdb Auth (San Diego) 2003
Ise rev rfdg bnds (San Diego Old Twn Lt Rail Transit
Extension Rfdg) dtd 05/20/2003 due 06/01/2004-2023 AAA/A+(SPUR) AA-

San Diego, California

San Diego Convtn Ctr Expansion Fing Auth, California
\$205.000 mil. San Diego Convtn Ctr Expansion Fing
Auth Ise rev bnds ser 1998A dtd 09/01/1998 due
04/01/2002-2018 2028 AAA/A+(SPUR) AA-

San Diego Pub Facs Fincg Auth, California

\$25.070 mil. San Diego Pub Fac Fing Auth Ise rev bnds
(Fire & Life Safety Fac Proj) ser 2002B dtd 06/15/2002
due 04/01/2004-2024 2027 2032 AAA/A+(SPUR) AA-

AFFIRMED

San Diego Pub Facs Fincg Auth, California

\$416.465 mil. San Diego Pub Fac Fing Auth (San
Diego) swr rev bnds ser 93 99 A B A

OUTLOOK: STABLE

DOWNGRADED

	To	From
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San Diego, California

\$63.595 mil. San Diego AA- AA

\$17.425 mil. San Diego 2003 certs of part (1993 Balboa
Park/Mission Bay Pk Rfdg) dtd 06/17/2003 due
11/01/2003-2023 AAA/A+(SPUR) AA-

\$26.975 mil. San Diego caps imp prog certs of part
(Balboa Pk & Mission Bay Pk) ser 1996A & rfdg ser
2003 A+ AA-

\$10.720 mil. San Diego rfdg certs of part (Balboa Pk &
Mission Bay Pk Cap) ser 1996B A+ AA-

San Diego Mtdb Auth, California

\$1.440 mil. SAN DIEGO MTDB AUTH (BAYSIDE LT RAIL TRANSP EXT PROJ) LSE REV SER 89	A+	AA-
\$30.000 mil. SAN DIEGO MTDB AUTH LSE RFDG SER 94	A+	AA-

San Diego Open Space Pk Dist #1, California

San Diego Open Space Pk Dist #1, California		
\$45.520 mil. SAN DIEGO OPEN SPACE PK DIST #1	AA-	AA

AFFIRMED**San Diego, California**

\$110.900 mil. San Diego 2003-04 TANs ser A dtd 07/01/2003 due 06/30/2004	SP-1+	
\$385.000 mil. San Diego certs of undivided int (payable from net sys revs of wtr util fd) ser 1998 dtd 08/01/1998 due 08/01/2001-2018 2021 2024 2028	AAA/AA-(SPUR)	

San Diego Pub Facs Fincg Auth, California

\$286.945 mil. San Diego Pub Fac Fing Auth sub wtr rev bnds ser 2002 dtd date of delivery due 08/01/2006-2024 2026 2032	AAA/A+(SPUR)	
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San Diego, California

San Diego Pub Facs Fincg Auth, California		
\$307.715 mil. San Diego Pub Fac Fing Auth swr rev bnds (San Diego) ser 1999 A&B dtd 03/01/1999 due 05/15/2002-2019 2029	AAA/A(SPUR)	

San Diego Redev Agy, California

San Diego Redev Agy, California		
\$4.095 mil. San Diego Redev Agy (Southcrest Redev proj) ser 1995	BBB+	
\$5.360 mil. San Diego Redev Agy 2003 Tax alloc bnds (Tax-Exempt) (North Park Redev Proj) ser B dtd 12/17/2003 due 09/01/2027-2030 2033	AAA/A-(SPUR)	
\$7.145 mil. San Diego Redev Agy 2003 Tax alloc bnds (Taxable) (North Park Redev Proj) ser A dtd 12/17/2003 due 09/01/2004-2013 2018 2023 2027	AAA/A-(SPUR)	
\$865,000 San Diego Redev Agy 2003 hsg set-aside tax alloc bnds (tax-ex & taxable) (City Hts Redev Proj) ser A & B	A-	
\$6.735 mil. San Diego Redev Agy TABs	A-	
\$12.545 mil. San Diego Redev Agy TABs - North Bay	BBB	
\$11.500 mil. San Diego Redev Agy pkg rev bnds (Centre City Redev Proj) ser 1999A	BBB	
\$13.030 mil. San Diego Redev Agy rfdg tax alloc bnds (Horton Plaza Redev Proj) ser 1996A SPUR dtd 05/01/1996 due 11/01/2017	AAA/A-(SPUR)	
\$9.320 mil. San Diego Redev Agy rfdg tax alloc bnds - Horton Plaza	BBB+	
\$3.345 mil. San Diego Redev Agy tax alloc bnds (Cent Imperial Redev Proj) ser 2000	BBB	

Rationale

Standard & Poor's Ratings Services today lowered the underlying rating (SPUR) on all of San Diego, Calif.'s general obligation bonds to 'AA-' from 'AA', with general fund-backed lease underlying ratings lowered to 'A+' from 'AA-', and placed all outstanding bonds and short-term notes, including those issued by all city entities (except the Housing Authority and Area Housing and Finance Agency) on behalf of the city, on CreditWatch with negative implications. The lowered rating on the city's general obligation bonds and general fund-supported lease debt reflects increasing fiscal pressures relating to the city's burgeoning unfunded pension liability, and concomitant pension contributions that could be exacerbated by an unfavorable ruling concerning pension funding litigation. The CreditWatch negative action reflects the uncertainty related to the recently commenced investigation by the Securities and Exchange Commission (SEC) and U.S. Attorney of city financial disclosures, practices, and other documents dating back to 1996.

Specific rating factors include:

- Continued deterioration of the city retirement system's condition, including an unfunded actuarial accrued liability (UAAL) that reached \$1.2 billion (\$902 million or 78% of which represents the general fund portion) as of June 30, 2003, up from \$721 million in 2002, and a funded ratio that has declined precipitously to 67.2% in 2003, from 97.3% in 2000, due mainly to investment returns well below the assumed 8% rate, increased benefits, and continued underfunding below the actuarially required contribution rate;
- Increasing projected general fund pension contributions, absent a potentially adverse outcome of pending litigation and other budgetary adjustments, that are projected to increase in 2005 to \$73.4 million or 9.9% of 2004 budgeted general fund expenditures, up from \$55.5 million or 7.5% of expenditures in 2004 and \$41.8 million or 5.8% of expenditures in 2003; and
- Heightened concern related to the city's pension litigation, which could, in the event of an unfavorable ruling, increase general fund retroactive and current contributions to the pension system in fiscal 2004 to \$134 million or 18.1% of general fund expenditures, growing to \$194 million or 26.2% of expenditures by fiscal 2005.

Mitigating strengths to the rating include:

- Identified, yet preliminary and tentative, solutions to the above financial and pension concerns, including the issuance of pension obligation bonds, increased taxes, sale of city assets, reprioritization of expenditures, or a combination thereof, that could alleviate the projected general fund strain in 2005 and beyond;
- Given better-than-expected revenues, a projected breakeven general fund result for fiscal 2004--pension litigation and SEC investigation outcome aside--despite the presence of significant state-induced revenue reductions, unexpected significant firefighting costs, and overspending within public safety;
- A deep and diverse strong local economy, characterized by above average incomes, strong real estate and tourism markets, and a diverse and strong taxpayer base, all of which have produced better-than-expected revenues for fiscal 2004; and
- A moderate debt burden at 7.9% of 2004 general fund expenditures, \$2,107 per capita, and 2.7% of market value, though a higher 15.3% of general fund expenditures, \$2,815 per capita, and 3.3% of market value when including the city's projected 2004 general fund pension contribution of at least \$55.5 million and current city UAAL of \$1.16 billion, of which the general fund portion is estimated at \$902 million.

Investigation

Standard & Poor's understands the SEC and U.S. Attorney formally began investigating the city's finances and financial disclosures on approximately Feb. 13, almost three weeks after the city released voluntary filings related to the status of the pension system and errors in its 2002 financial statements. A day prior to this investigation, the city began its own internal review and hired Paul Maco, formerly with the SEC's Office of Municipal Securities, to conduct a review of the city's current and past financial disclosure practices. Standard & Poor's further understands that the errors discovered in the 2002 financial statements were primarily limited to the footnotes, and, in the city and outside auditor's opinion, those errors were not material either individually or taken as a whole. Depending on how the investigation develops, Standard & Poor's will take further rating action if appropriate.

Pension System

The pension system's funded ratio (valuation of assets available for benefits divided by total actuarial liability) plummeted to 67.2% as of June 30, 2003, from 77.3% in 2002, 89.9% in 2001, and a healthier 97.3% in 2000. In addition, the system's total UAAL was \$1.2 billion as of June 30, 2003 (with the general fund's share at approximately \$902 million or 78% of the total UAAL), up from \$721 million in 2002, \$283 million in 2001, and just \$69 million in 2000.

In 1996, the city entered into an agreement with the San Diego City Employee Retirement System (SDCERS or CERS) that provided for the making of pension contributions at rates below more conventional pension funding plan methods. The city continues to underfund the system and only recently has the underfunding become apparent, as investment returns recently have been well less than the assumed 8% rate (whereas historically they were higher), while at the same time the city has increased benefits, member payroll has continued to grow, and demographic assumptions have changed.

The city's 1996 arrangement with CERS permitted contribution rates of less than the actuarially required rate, and required that in the event the funded ratio fell below 82.3% (the "threshold rate"), the city-paid rate was to increase until the funded ratio was at least equal to the threshold rate. The agreement was unclear as to the period of time the city had to bring the funded ratio over the threshold rate. As such, a later 2002 agreement more clearly specified the timeline. The 2002 agreement provided that, should the funded ratio fall below the threshold rate, the city would "catch up" on payments through fiscal 2009, at which point the city's contribution would be approximately equal the actuarially required contribution, regardless of whether the funded ratio improved to the threshold rate or higher during that catch up period. Thereafter, the city would contribute the required actuarial contribution.

Given the 2002 agreement and the pension system's assumptions, and assuming the city makes no changes to its funding strategy, the city's and general fund's contributions are projected to escalate rapidly. In 2003, the general fund contributed \$41.8 million or 5.8% of general fund expenditures to the system. This increase is projected to increase to \$55.5 million (7.5% of expenditures) in the current fiscal 2004, and to \$73.4 million (9.9% of 2004 expenditures) in 2005, an average annual increase of 33%.

Although the general fund contributed \$41.8 million in 2003, this was \$11.8 million short of the actuarially required rate. The shortfall grew to \$36.9 million in 2004 and is projected to reach \$53.0 million in 2005. Despite general fund and city contributions that are projected to escalate rapidly, projections show no improvement or material change in the system's funded ratio, falling slightly to 64.6% by 2007. Projections also show the system's total UAAL continuing to increase annually, reaching \$1.8 billion by 2007, a 55% increase from its current level. This assumes the city makes no changes to its contribution rates, and assumes a favorable litigation outcome.

Pension Litigation

In January 2003, a class action complaint was filed against the city alleging that the pension system underfunding was inconsistent with certain provisions in the city charter and municipal code. The plaintiffs allege that the city is obligated to make additional payments to CERS consistent with the actuarially required rate. An unfavorable ruling would increase general fund retroactive and current contributions to the pension system through fiscal 2004 to \$134 million or 18.1% of general fund expenditures, growing to \$194 million or 26.2% of expenditures through fiscal 2005. The city stated in its filing on Jan. 27 that compliance with such an outcome could have an adverse effect on the city's general fund. A ruling on this litigation is expected within the next 30 days; however, this timing is uncertain and further delays can be expected before an outcome is known.

Remedies

Possible remedies, according to the city, to deal with the rising pension liability include the issuance of pension obligation bonds, the sale of city assets (such as land) to generate revenues, a review of system benefits, a levy of a pension tax, and the reprioritization of expenditures. Separately, Proposition C, which will be on the March 2 ballot, proposes an increase to the transient occupancy tax (TOT) to 13.0% from 10.5%. Although this will not result in a direct impact to the general fund, it is expected to generate additional funds allocated to public safety. The impact of the above proposals to alleviate the current and projected strain on the general fund are unknown at this point in time, and are preliminary in nature. The city is awaiting the outcome of the pension litigation before it formally presents the details of its plan.

Finances

The city, given better than expected revenues, currently projects a breakeven general fund result for fiscal 2004--pension litigation and SEC investigation outcome aside--despite the presence of significant state-induced revenue reductions, unexpected significant firefighting costs, and overspending. The city's unreserved fund balance as of the end of fiscal 2003 was \$36.2 million or 5% of expenditures, with the total fund balance \$65.6 million or 9.1% of expenditures. Pending the release of a fiscal 2004 status report due out on Feb. 29, which may include revised figures, property taxes are on target, with sales tax above projections and TOT and franchise revenues slightly under projections. Overall, major general fund revenues are \$6 million above budget, excluding motor vehicle license fees (MVLFF). However, expenditures are currently \$10 million over budget due mainly to police and fire overspending. This leaves a net gap of \$4.0 million, for which the city put in place expenditure reductions of \$5.0 million to address. This \$5.0 million, plus an additional \$6.9 million in additional savings, more than addressed \$4.0 million gap.

The severe fires in the fall of 2003 resulted in gross emergency response and related costs of \$5.5 million, plus \$1.8 million in helicopter expenses, though these costs were mostly reimbursed by FEMA and the Office of Emergency Services (OES), leaving a net cost to the city of \$1.0 million. In addition, \$1.9 million in fee waivers were submitted to FEMA for reimbursement; however, the budget assumes these costs will not be reimbursed.

The state's MVLFF impact to the city is a \$13.9 million reduction for fiscal 2004. In response, the city uncovered \$3.9 million in budget savings. These savings, combined with the aforementioned expenditure cuts, result in a net negative impact to the general fund of \$5.0 million. The city is currently working to fund this \$5.0 million balance within the next 10 days, so that the ending fund balance and reserves for fiscal 2004 are expected to remain virtually unchanged over 2003 levels.

The impact to the city's 2005 general fund budget by the state's budget proposal is a reduction estimated at approximately \$14.7 million, consisting of \$9.5 million lost in potential property tax shifts and \$5.2 million in booking fee reductions. The city's final 2005 budget is expected to be completed by May 1 and will likely include significant reductions and/or fee increases.

Economy

San Diego's population continues to experience steady growth of 1%-2% annually, reaching 1.28 million in 2003. The economy consists of a mix of various high-tech clusters--including biotech and telecommunications--combined with some reliance on tourism and the military and defense industries. Overall visitor spending is expected to rise 7.1% in 2003 to approximately \$5.4 billion. San Diego continues to attract tourists to Sea World, the San Diego Zoo, and Mission Bay, which adds stability to its visitor industry.

The high-tech sector remains an important part of the San Diego economy, and within high-tech there is diversity, given the sector's broad range of activities, which include electronics, telecommunications, scientific instruments, drugs, and biomedical equipment. The city's economic base is also anchored by higher education, with the University of California at San Diego and San Diego State University, and with an infrastructure of major scientific research institutions, including Scripps Clinical Research Institute, the Salk Institute for Biological Studies, and the San Diego Supercomputer Center.

The city's assessed value (AV) continues to grow strongly, up 8.5% to \$108.8 billion in fiscal 2004, after a similar increase of 8.4% for 2003. The tax base continues to be diverse, with the top 10 taxpayers representing just 3.2% of total AV. On a per capita basis, market values are high at over \$85,000. City wealth levels remain above average, with per capita effective buying income at 108% of the national average. Unemployment as of June 2003 was 4.5%, flat since August 2002 but well below the state and national averages of 6.7% and 6.3%, respectively. Taxable transactions totaled \$16.6 billion in 2002, up 1.6% from \$16.4 billion in 2001; data for 2003 is not currently available.

Debt and Capital Plan

As a result of the investigation and due to the city's goal to ensure all financial disclosures are accurate, the city has delayed three bond financings, including a wastewater financing scheduled for last calendar year and two refunding transactions, scheduled for this spring. The city intends to move forward with one or more of the transactions as soon as it is able to.

The city has a moderate debt carrying cost of 7.8% of budget, with total debt \$2,107 per capita and 2.7% of market value. When including the city's projected 2004 general fund pension contribution of at least \$55.5 million and current general fund portion of the UAAL of \$902 million, the city's adjusted debt carrying cost is a higher 15.3% of budget, with total adjusted debt \$2,815 per capita and 3.3% of market value.