New Issue: San Diego (City of) CA

MOODY'S ASSIGNS MIG 1 RATINGS TO TAX AND REVENUE ANTICIPATION NOTES OF CITY OF SAN DIEGO, CA

APPROXIMATELY $131 MILLION IN SHORT TERM DEBT AFFECTED

Municipality
CA

Moody's Rating

ISSUE		RATING
Tax and Revenue Anticipation Notes, 2009-10 Series A		MIG 1
Sale Amount	$19,595,000	
Expected Sale Date	06/22/09	
Rating Description	Tax and Revenue Anticipation Notes	
Tax and Revenue Anticipation Notes, 2009-10 Series B		MIG 1
Sale Amount	$58,770,000	
Expected Sale Date	06/22/09	
Rating Description	Tax and Revenue Anticipation Notes	
Tax and Revenue Anticipation Notes, 2009-10 Series C		MIG 1
Sale Amount	$52,245,000	
Expected Sale Date	06/22/09	
Rating Description	Tax and Revenue Anticipation Notes	

Opinion

NEW YORK, Jun 19, 2009 -- Moody's Investors Service has assigned MIG-1 ratings to San Diego's 2009-10 Tax and Revenue Anticipation Notes Series A, Series B and Series C. The notes are issued to fund the city's mid-year cash flow needs and are secured by all unrestricted available funds of the city. The three series mature on December 31, 2009, January 29, 2010 and April 30, 2010, respectively. The rating reflects the relatively moderate size of the total borrowing, the stable liquidity within the projected cash flows, high degree of reliability of the cash flows which indicate sufficient cash margins at the times of series maturities, and available liquidity outside the general fund.

TOTAL BORROWING AMOUNT MODERATE AND MANAGEABLE

San Diego's three series of notes total an estimated $131 million representing 11.5% of projected fiscal 2010 receipts, which is somewhat below the typical level of 15.7%. This borrowing is quite manageable. The three maturities have a weighted average set-aside of a strong 3.9 months before fiscal year end, well ahead of the 2.9 months which is characteristic of California TRAN issuers.

CITY EXPECTS TO MEET PROJECTED ENDING CASH POSITION FOR THE CURRENT YEAR WITH TIMELY EXPENDITURE REDUCTIONS WHICH KEPT PACE WITH UNDERPERFORMING RECEIPTS.

The City's fiscal 2009 ending cash balance is expected to come in at $85.8 million, which is just below the previously projected $86.9 million, despite a $70.1 million shortfall in receipts. Although there were shortfalls in almost all categories of receipts, the largest shortfalls were in economically sensitive revenues, including $15.5 million in property taxes, $12.2 million in sales taxes, and $11.6 million in transit occupancy tax. However, with timely reductions in expenditures, including $6.7 million in salaries and $55.6 million in services and supplies, the city was able to reduce expenditure by more than $69 million to preserve its cash position. The resulting year end cash balance as a percent of receipts is now an estimated 7.7% compared to the projected 7.3%. (The slightly higher ratio is primarily due to the lower receipts) These margins are ample for the assigned ratings, and we derive additional comfort from the city's ability to adjust to the midyear revenue shortfalls which were largely due to economic conditions beyond the city's control.

On a budget basis, the city is estimating general fund balances in line with the 2008 results when the total general fund balance stood at 11.4% of revenues and the unreserved, undesignated balance was 6.7% of revenues. While these are significantly below statewide levels for cities, the city's demonstrated ability to operate within budgetary limitations with frequent adjustments mitigates potential weakening of note holder security due to lack of reserves.

REASONABLE AND RELIABLE CASH FLOWS INDICATE AMPLE LIQUIDITY FOR REPAYMENT OF NOTES DURING MONTH OF SERIES MATURITIES

For its 2009-10 cash flow needs the city is employing the unusual structure of three series with distinct maturities. Therefore, in addition to our typical analysis, which includes evaluating overall liquidity margins, cash flow accuracy, and the soundness of assumptions, we applied additional scrutiny to the ending cash balances in December, January and April. Overall, the city is projecting continued stability in its cash position with a slight, $2.2 million increase on June 30, 2010 compared to the expected June 30, 2009 balance, bringing it to $88.1 million which keeps it at 7.7% of receipts. Total receipts are projected to increase by a mere 1.5% while expenditures are estimated to increase by 1.2%. The underlying assumptions are reasonable and reflect budgetary expectations. Property taxes are estimated to decrease by 3.5% which may be conservative in light of expected assessed valuation changes. Sales tax is expected to increase by 2.1% which assumes improvement in the economy. However, the transient occupancy tax is expected to continue its slide with a 6.7% decrease over the current year. On the expenditure side, salaries and wages are projected to decrease by $33.5 million or 4.5%, which takes into account budgeted reductions. Most other expenditures are projected to increase, some reflecting conservative budgeting, others reflecting realistic expectations.

At the end of December, 2009, and January, 2010, following the maturities of Series A and Series B, the cash flows project completely depleted month-end general fund cash balances. While our confidence level in the accuracy of cash flows is high, note holder security is bolstered by the presence of more than $63 million in additional liquidity, in what the city refers to as its policy fund balance, which consists of cash positions in various governmental funds, pre-approved for meeting general fund cash flow needs. This is apart from the alternate liquidity mentioned below. In April, 2010, after the payment of Series C, the general fund balance is projected at $26 million, the policy fund balance at $63 million. For June 30, 2010, the combined general fund and policy fund balance represent 11% of general fund receipts.

LIQUIDITY BOLSTERED BY ADDITIONAL BORROWABLE RESOURCES

The city's liquidity position is enhanced by the large amount of borrowable resources available outside the projected general fund cash flows. The city projects it will have available $56 million in resources available to lend to the general fund at fiscal year end 2010. The amount in this fund is projected to be essentially level with their estimated fiscal 2009 year end balances. Adding these funds to the projected ending general fund and policy fund cash balances at fiscal year end 2010 yields total balances representing a healthy 18.2% of projected receipts.

KEY STATISTICS

GO Rating: A2

Projected amount borrowed as % of receipts, FY 2010: 11.5%

Projected ending cash as % of receipts, FY 2010: 7.7%

Alternate Liquidity, Projected balance FY 2010: $56 million.

Maturity timing (months before June): 3.9 months

The last rating action for City of San Diego was on June 8, 2009 when the city's water enterprise was rated A1.

The principal methodology used in rating the current offering was "Short-Term Cash Flow Notes," which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Rating Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

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