

### Summary:

## San Diego, California; Note

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### Credit Profile

US\$130.0 mil 2012-13 TRANs ser A due 06/28/2013

Short Term Rating

SP-1+

New

## Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to San Diego, Calif.'s 2012-13 series A tax and revenue anticipation notes (TRANs).

The rating reflects what we view as the city's:

- Good 2.2x projected TRANs debt service coverage by total net available ending cash fund balances, including general fund and policy fund cash, at maturity;
- Extremely strong note coverage when including alternate liquidity;
- Underlying credit characteristics (issuer credit rating: 'AA-/Stable').

Deposits into the note repayment fund before note maturity, unrestricted taxes, income, revenue, cash receipts, and other monies attributable to fiscal 2013 and lawfully available for payment on the TRANs, exclusive of monies encumbered for a special purpose, secure the TRANs. If these monies are not sufficient to repay the notes, the resolution requires the comptroller to deposit any other lawfully available funds into the repayment fund. According to San Diego, the general fund and the policy funds (which primarily include general purpose public liability funds, equipment replacement funds, and capital funds that were funded with general fund contributions) constitute the pledged unrestricted revenues. We understand that the city will use the TRANs proceeds to provide liquidity and as well as to prepay San Diego's contribution to retirement benefits in fiscal 2013.

The city projects that the combined ending net general fund and policy fund cash balance will total \$156.7 million at the June 28, 2013, maturity date, which would cover TRANs repayment by a good 2.2x, in our opinion. The projected net general fund cash balance makes up about half of this total, at \$73.7 million, also providing a good 1.57x coverage of note principal and interest, in our view. The note resolution and accompanying document reflect early set-aside dates and San Diego intends to deposit 25% of note principal and interest from the first unrestricted revenues received in January 2013 and April 2013 into the repayment fund, as well as 50% of note principal and interest from the first unrestricted revenues received in May 2013. Officials project net pledged general fund and policy fund cash balances at the end of January, April, and May 2013 will provide what we view as strong 5.0x, 4.6x, and 3.8x note coverage in each month, respectively. We understand the city intends to invest the note repayment funds in permitted investments defined in the bond documents, which include its investment pool.

San Diego also has identified cash that it reports could be available for temporary borrowing in the city's sewer, water, and environmental services enterprise funds. As of March 31, 2012, the combined cash in these three funds totaled \$818 million, but the city is unable to project actual cash balances on the maturity dates. There was about \$650 million in cash in the identified enterprise funds at the end of fiscal 2011. Including historical year-end alternate liquidity, coverage at maturity would increase to more than 7x. San Diego's annual appropriation

ordinance authorizes the city's chief financial officer to make interfund loans from alternate liquidity without city council approval, which can extend beyond the fiscal year if needed.

Fiscal 2013 cash flow projections reflect a 0.7% overall year-over-year growth in receipts, including 7.6% assumed growth in sales tax receipts, offset by lower assumed charges for services in fiscal 2013 after higher-than-expected receipts in fiscal 2012. Projected fiscal 2013 disbursements, net of the TRANs, are 3.8% higher than in fiscal 2012, due primarily to assumed workers' compensation and pension expenditures as well as an increase in assumed energy and supplies and services costs.

Based on San Diego's May 2012 year-end budget monitoring report, the city expects to end fiscal 2012 with revenue exceeding expenditures by \$17.8 million due in part to higher-than-budgeted revenue and lower-than-budgeted expenditures. City officials estimate the fiscal 2012 year-end general fund balance will increase to \$131.7 million, or 11.8% of general fund expenditures. We understand San Diego will budget a portion of the balance in fiscal 2013 to bring the general fund balance to \$119 million, or about 10% of budgeted general fund expenditures, which is still above the city's 8% reserve target. Risks to its projected fiscal 2013 budget, however, include another economic downturn and lower-than-estimated revenue, potential diversion of gas tax revenue to California, and potential higher costs to the general fund after the dissolution of redevelopment agencies (RDAs) in the state. City officials estimate a \$13 million-\$20 million exposure to the general fund due to the RDA dissolution, although we understand San Diego has set aside \$14 million of general fund reserves that it could use to address the potential impact of the RDA dissolution on the general fund.

San Diego (estimated population of 1.32 million) is a primary employment center in San Diego County, representing about half of the county's total employment. The economy consists of various high-tech clusters, including biotech and telecommunications, combined with a reliance on tourism as well as the military and defense industries. Its economic base is also anchored by higher education and major scientific research institutions. We consider San Diego's median household effective buying income strong at 114% of the national average in 2011. Unemployment for the city was 9.5% in March 2012, which remains below the state level of 11.0%, based on seasonally unadjusted data by the Bureau of Labor Statistics.

## **Related Criteria And Research**

USPF Criteria: Short-Term Debt, June 15, 2007

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