# RatingsDirect®

## Summary:

# San Diego, California; Appropriations; General Obligation

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**Summary:**

# San Diego, California; Appropriations; General Obligation

| Credit Profile | | |
|---|---|---|
| San Diego lse (Cap Imp Proj & Old Town Light Rail Rfdg) ser 2013A (AGM) | | |
| *Unenhanced Rating* | AA-(SPUR)/Stable | Upgraded |
| San Diego ICR due 04/30/2040 | | |
| *Long Term Rating* | AA/Stable | Upgraded |
| **San Diego Convtn Ctr Expansion Fing Auth, California** | | |
| San Diego, California | | |
| San Diego Convtn Ctr Expansion Fing Auth (San Diego) lse rev rfdg bnds | | |
| *Long Term Rating* | AA-/Stable | Upgraded |

## Rationale

Standard & Poor's Ratings Services raised its issuer credit rating (ICR) to 'AA' from 'AA-' on San Diego, Calif., and its long-term rating and underlying rating (SPUR) on various authorities' lease revenue bonds, issued for San Diego, to 'AA-' from 'A+' based on our recently released local GO criteria. The outlook on all ratings is stable.

The city's lease revenue bonds are secured by lease payments made by San Diego, as lessee, to various authorities as lessor, for the use and possession of the leased assets. The ratings on the authorities' lease revenue bonds reflect our view of the city's general credit characteristics and its covenant to budget and appropriate annual lease payments for various properties' use.

The ratings reflect our assessment of the following factors for the city:

- We consider the city's economy to be very strong, with projected per capita effective buying income at 113.7% of the U.S. and per capita market value of $126,309. Assessed valuation (AV) reached $167.5 billion for fiscal 2013. The city informed us that AV grew 4.2% for fiscal 2014. The city, with a population of 1.3 million, participates in the San Diego-Carlsbad, Calif. metropolitan statistical area, which we consider broad and diverse. The county unemployment rate for calendar year 2012 was below 10%.
- In our opinion, the city's budgetary flexibility is strong, with available general fund reserves equal to 14% of adjusted general fund expenditures for audited fiscal 2013. Revenue and expenditures were adjusted for one-time revenue and expenditures. Available general fund reserves include combined unassigned, assigned, and the restricted balance for the city's policy-required emergency reserve. We have adjusted the available general fund balance downward to reflect $21 million of agreements found invalid by the state Department of Finance. The invalidated agreements were between the city's former redevelopment agency and the city to support a portion of general fund debt payments with property tax increment. We understand that the city had set aside a contingency of $28 million in general fund reserves for this potential liability and now expects the amount due would be $21.1 million. Without this $21 million adjustment, the available general fund reserve would be about 16%.
- The city's budgetary performance factor is weak, in our view. The general fund and total governmental funds net


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adjusted results include a surplus of 4.3% for total governmental funds for fiscal 2013, but a slight deficit of 1.5% for the general fund. Revenue and expenditures were adjusted for one-time revenue and expenditures. Budgetary performance also takes into consideration the city's significant anticipated funding gap for its storm water program for mandated regulatory compliance, which we understand is primarily an obligation of the general fund. We understand that only about 50% of the projected annual operating cost and 20% of the projected annual capital costs are included in the fiscal 2014 budget, and the total cost in the five-year forecast (fiscal years 2015 through 2019) totals $882 million.

- Supporting the city's finances is liquidity we consider very strong, with total government cash and investments (maturity of less than one year) equal to 58% of total governmental funds expenditures and 1,010% of total governmental funds debt service. We believe the city has exceptional access to external liquidity. The city currently has no variable-rate debt.
- We view the city's management conditions as very strong with strong financial practices. Highlights include a five-year financial forecast and capital improvement plan, and the city performs monthly financial reporting. The city's reserve policy is to maintain 5% of general fund revenues and has a goal to maintain 8%. The city also has an investment policy, which is reviewed annually, with monthly reporting.
- In our opinion, the city's debt and contingent liabilities profile is very weak, due to what we view as large retiree benefit obligations. The city has contributed the annual required contribution (ARC) to the San Diego City Employees' Retirement System (SDCERS) for at least the past three years. The combined pension ARC and other postemployment benefit pay-as you-go payment for fiscal 2013 was 16.5% of unadjusted total governmental funds expenditures. As of June 30, 2012, the most recent valuation date, the SDCERS was 68.6% funded. In 2012 voters approved Proposition B, which would replace defined benefit pension plans for new city hires (except police officers) with a 401(k)-style plan and freeze pensionable pay for five years. However, we understand this is currently subject to legal challenge. The total governmental fund debt service as a percentage of total governmental fund expenditures is 5.7%, and net direct debt (including tax increment bonds) as a percentage of total governmental fund revenue is 83%. We anticipate that a planned debt issuance within the next two years will have a minimal impact on the net direct debt ratio. The city plans to issue $120 million for public infrastructure improvements and $192 million for its convention center phase three expansion.
- We consider the Institutional Framework score for California cities with a federal single audit requirement as strong. See Institutional Framework score for California.

## Outlook

The stable outlook reflects our view of the city's very strong economy and strong budgetary flexibility, which is supported by very strong management conditions. We do not expect to revise the ratings within the next two years because we believe the city will maintain strong budgetary flexibility and very strong liquidity.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Financial Management Assessment, June 27, 2006



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## Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: California Local Governments

| Ratings Detail (As Of December 20, 2013) | | |
|---|---|---|
| San Diego lse rev rfdg bnds (Balboa Park & Mission Bay Pk Rfdg) ser 2013B due 10/15/2042 | | |
| *Long Term Rating* | AA-/Stable | Upgraded |
| San Diego lse rev & rfdg bnds (Capital Improvement Project & Old Town Light Rail Rfdg) ser 2013A due 10/15/2042 | | |
| *Long Term Rating* | AA-/Stable | Upgraded |
| San Diego 2003 certs of part (1993 Balboa Park/Mission Bay Pk Rfdg) | | |
| *Unenhanced Rating* | NR(SPUR) | Withdrawn |
| **San Diego Pub Facs Fincg Auth, California** | | |
| San Diego, California | | |
| San Diego Pub Facs Fincg Auth (San Diego) lse rev bnds (Cap Imp Proj) | | |
| *Long Term Rating* | AA-/Stable | Upgraded |
| San Diego Pub Facs Fincg Auth (San Diego) lse rev rfdg bnds ser 2007A | | |
| *Long Term Rating* | AA-/Stable | Upgraded |
| San Diego Pub Facs Fincg Auth (San Diego) lse rev rfdg bnds (Fire & Life Saftey Facs Rfdg) | | |
| *Long Term Rating* | AA-/Stable | Upgraded |
| San Diego Pub Facs Fincg Auth (San Diego) lse rev rfdg bnds (San Diego) (Master Rfdg Proj) ser 2010A due 03/01/2040 | | |
| *Long Term Rating* | AA-/Stable | Upgraded |

Many issues are enhanced by bond insurance.

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