STANDARD & POOR'S
RATINGS SERVICES

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Summary:

San Diego County, California; Appropriations; General Obligation

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Summary:

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Credit Profile		
San Diego Cnty ICR		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'AAA' issuer credit rating (ICR), with a stable outlook, on San Diego County, Calif. under its recently released local GO criteria.

At the same time, Standard & Poor's affirmed its 'AA+' rating, with a stable outlook, on San Diego County's certificates of participation (COPs), lease revenue bonds, and pension obligation bonds (POBs).

The county's general obligation pledge, not an unlimited ad valorem tax levy, secures the POBs. The COPs and lease revenue bonds are secured by pledged lease revenues, subject to abatement in the event of damage, destruction, or impairment of the leased assets.

The rating reflects our assessment of the following factors for the county.

- Strong economy, bolstered by a sizable, deep, and diverse economy with a favorable location that exhibits relatively stable assessed valuation (AV), coupled with strong wealth;
- Very strong budgetary flexibility with 2012 available reserves equal to 23.9% of expenditures, including reserves for emergency contingencies;
- Strong budgetary performance, with the general fund posting at least slight surpluses for the past three years;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures and extremely strong market access;
- Very strong management conditions with strong financial policies; and
- Strong debt and contingent liabilities position.

Very strong economy

San Diego County, with a population estimate of 3.1 million, has, an economy diversified in tourism, international trade, military, and high-tech manufacturing. County unemployment for 2012 was 8.9%, and has been trending downward on a monthly basis. Leading employers include the government, education, military, and health care sectors, all of which, in our opinion, are very stable. The county has projected per capita effective buying income of 108% of the U.S., while per capita market value was $125,000 for fiscal 2013. While AV decreased slightly between fiscal years 2010 and 2011, it grew by an average of 9.8% annually between fiscal 2004 and 2009. Based on discussions with the assessor, management expects AV to grow by slightly less than 2% next year.

Very strong budget flexibility

In our opinion, the county's budgetary flexibility remains very strong, with available reserves at 23.9% of general fund expenditures for fiscal 2012, when including reserves committed for emergency contingencies. The county's reserve policy ensures a minimum 17% of reserves will be available for contingencies. Management has consistently met and exceeded its reserve policies, which require the maintenance of 10% of general purpose revenue for economic uncertainty, 5% for general purposes, and 2% for contingencies. In addition, the county has a history of, what we regard as, conservative budgeting. Expenditure controls have helped maintain positive operations, which are necessary due to the county's limited direct revenue-raising flexibility. We also understand expected ending reserves remain at or above county policy levels.

Strong budgetary performance

In our opinion, finances remain strong with audited 2012 posting close to a 3% surplus for the general fund and nearly 2.5% for total governmental funds. Officials expect to post a surplus for fiscal 2013; the county has reported surpluses in four of the past five fiscal years. Based on third-quarter fiscal 2013 results, officials expect to post a $191.3 million surplus at year-end. They expect expenditures to be $246.6 million lower than projected. Historically, third-quarter projections for available reserves have been slightly lower than year-end results. For fiscal 2013, officials are projecting an unassigned general fund balance of $732.9 million, or 21% of expenditures. In addition, the county holds $55 million of committed reserves for unforeseen catastrophic events.

For fiscal 2014, management is projecting 1.1% growth in general purpose revenue and an increase in full-time equivalent (FTE) staff. According to management, it is funding 75% of the 590 new FTE positions from program revenue associated with increased services, such as health services. We understand the county continues to budget for general fund-appropriated debt. In addition, the county is budgeting $131.8 million for one-time projects.

Very strong management conditions

We view the county's management conditions as very strong with "strong" financial management practices under our Financial Management Assessment methodology, indicating practices are strong, well embedded, and likely sustainable. The county has written policies that cover investments, swaps, and debt management. Its reserve policy requires reserves of no less than 17% of discretionary revenues. Both investment results and actual-to-budget variances for general fund revenues and expenditures are reviewed monthly. The county utilizes various external and internal resources to generate budget assumptions, including various economic publications and its own historical trend analysis. The county also engages in multiyear financial planning, and its capital plan spans five years and fully identifies potential sources and uses of funds. Management usually makes conservative assumptions about revenue growth and somewhat less conservative assumptions about expenditure growth, with a resulting pattern of annual operating surpluses.

Very strong liquidity

Liquidity is very strong, providing very strong cash levels to cover both debt service and expenditures. In addition, we believe the county has extremely strong market access, having issued lease revenue bonds, COPs, and tax anticipation notes frequently. We expect a consistent level of liquidity in future years. The figures used to determine liquidity for the county include cash and estimates for investments with a maturity of less than one year.

Strong debt and contingent liability profile

In our opinion, the county's debt and contingent liability profile is strong with total governmental fund debt service at 4.1%, of total governmental fund expenditures and net direct debt at 44% of total governmental fund revenue. Overlapping net debt is, in our opinion, a moderate $3,800 per capita, or a low 3.1% of market value. The annual required contribution for the county's pension programs and other postemployment benefit (OPEB) pay-as-you-go financing equal 7.51% of governmental fund expenditures.

Strong Institutional Framework

We consider the Institutional Framework score for California counties with $500,000 or more in federal awards expended a year and two or more federal programs strong.

Outlook

The stable outlook reflects Standard & Poor's opinion of the county's deep and diverse economy, strong reserves, formal policies, manageable debt, and conservative budgeting, where actual results typically exceed projections. We do not expect to change the rating within the outlook's two-year horizon based on our belief management will likely maintain good finances and reserves.

Related Criteria And Research

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of November 5, 2013)		
San Diego Cnty GO Pension		
Long Term Rating	AA+/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
San Diego Cnty certs of part ser 2011 due 02/01/2042		
Long Term Rating	AA+/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
San Diego Cnty certs of part (Cedar & Kettner Development Project Parking Structure) due 02/01/2042		
Long Term Rating	AA+/Stable	Affirmed
San Diego Cnty rfdg COPS due 11/01/2019		
Long Term Rating	AA+/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
San Diego Cnty taxable pension oblig bnds (Cap Apprec Bnds) ser 2004C dtd 06/29/2004 due 08/15/2009-2015		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
San Diego Cnty COPS (Justice Facilities Rfdg)		
Long Term Rating	AA+/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	

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Ratings Detail (As Of November 5, 2013) (cont.)		
San Diego Cnty Pension Obligation Ref bnds (Fixed Rate) ser A		
Long Term Rating	AA+/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
San Diego Cnty certs of part (North & East Cnty Justice Facs Rfdg) ser 2005		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
San Diego Cnty certs of part (2005 Edgemoor Proj & 1996 Regl Comm Sys Rfdg) ser 2005		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
San Diego Cnty COPs (Edgemoor II Proj) ser 2006		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
San Diego Cnty GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
San Diego Cnty GO pension		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
San Diego Cnty GO pension (XLCAPITAL)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
San Diego Regl Bldg Auth, California		
San Diego Cnty, California		
San Diego Regl Bldg Auth (San Diego Cnty) lse rev bnds (Cnty Ops Ctr & Annex Redev Proj) ser 2009A		
Long Term Rating	AA+/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	

Many issues are enhanced by bond insurance.

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