



County of San Diego Rating Agency Presentation



January 2009



Introductions - Participants

County of San Diego Presenters

Donald F. Steuer, *Chief Financial Officer*

Dan McAllister, *Treasurer-Tax Collector*

Dave Butler, *Assistant Assessor/Recorder/County Clerk*

Mikel Haas, *General Manager, Community Services Group*

Finance Team

Kathleen Brown, *Goldman Sachs*



Additional Resources

Additional County Resources

Tracy Sandoval, *Auditor and Controller/Assistant Chief Financial Officer*

Lisa Marie Harris, *Chief Deputy Treasurer*

April Heinze, *Director, General Services*

Janel Pehau, *Director, Office of Financial Planning*

Ebony Shelton, *Group Finance Director, Finance and General Government*

Joan Pan, *Debt Finance Manager*

Rob Castetter, *Chief Investment Officer*

Michelle Durgy, *Investment Officer*

Jeff Olson, *Division Chief of Assessment Services*

Additional Finance Team Resources

Gardner Underwood & Bacon, *Financial Advisor*

Goldman Sachs, *Senior Manager*

Citi, *Co-Senior Manager*

Loop Capital Markets, *Co-Manager*



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I. Overview





Executive Summary

- Performance of the Economy and Real Estate Market
 - Diverse and stable economic base
 - Continued growth of tax base, even during difficult market conditions
 - AV “cushion” relative to market value
- Continued Financial Strength and Flexibility
 - Strong fund balances and reserves
 - Low debt ratios
 - Proactive strategies to manage ongoing and future challenges
- Overview of the new County Operations Center Project
 - Replaces aging County facilities
 - Prudent and efficient design
 - Revised project phasing reflects more conservative execution in response to the economic environment
 - Phase 1A can stand alone



II. Economic, Demographic, and Real Estate Market Update





Economic Highlights

- San Diego has emerged as a national leader in the new, knowledge-based economy. It has the most diversified high-tech economy in the nation, with hundreds of biotech, communications, software, Internet and information technology companies.
- UCSD Medical Center ranked among the nation's top hospitals in eight specialties.
-- U.S. News & World Report, July 2008
- The County joined with 18 cities to submit a list of 1,043 public works projects for the County to the new Obama administration that are ready to start. With a value of nearly \$7.5 billion, the projects will create nearly 96,000 jobs, and generate about \$5.2 billion in wages for the region.

San Diego Highlights

Tourism: The total number of San Diego tourists that visited in 2007 was 31.6 Mn; total economic impact: \$18.1 Bn

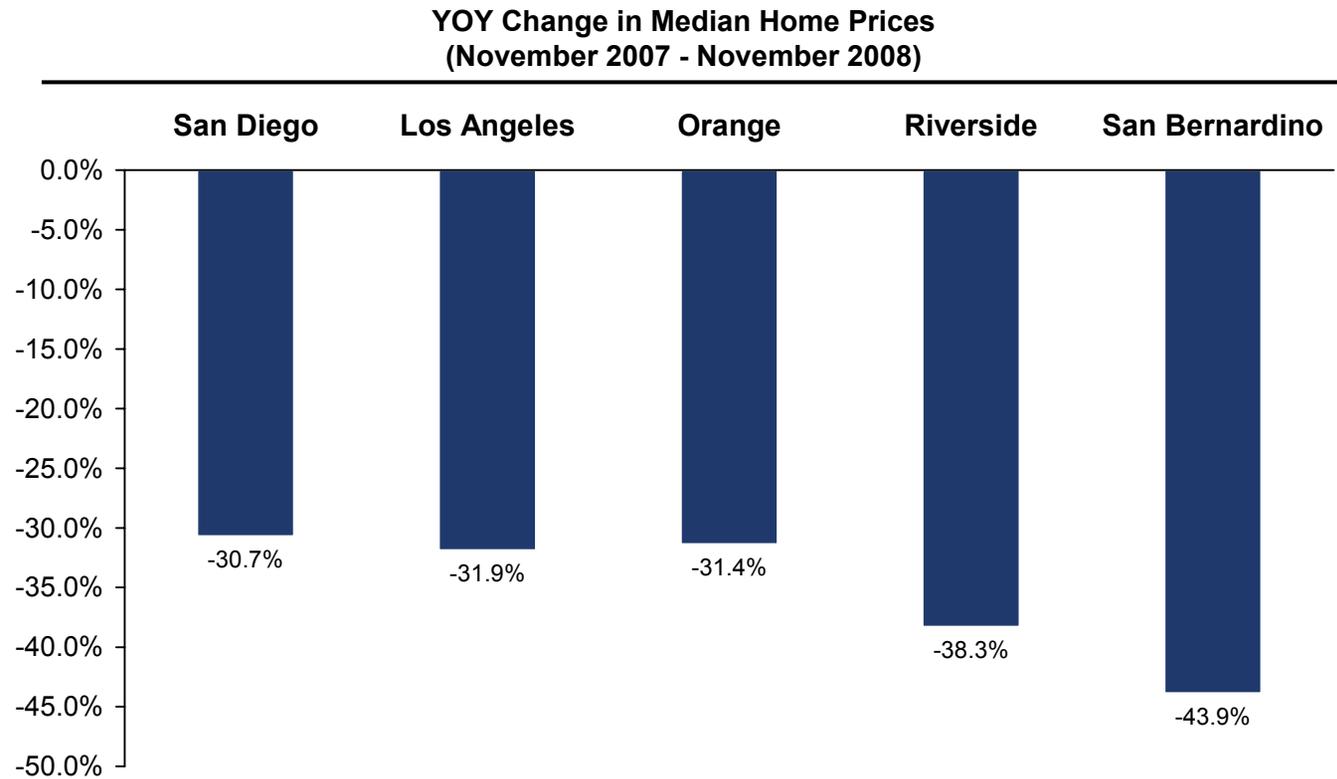
Tourism: In December 2008, the Poinsettia and Holiday Bowls had estimated attendances of more than 40,000 individuals. The economic impact to the region is estimated to exceed \$35 Mn

New Infrastructure Project: San Diego is adding a new, third border crossing in Otay Mesa. This third crossing will allow the County to recoup some of the \$6 Bn and 56,000 jobs that are lost every year as a result of the long waits. The \$800 Mn cost of the project would be covered by toll fees.



Housing Prices

- With the lowest decline in year over year median home prices, San Diego's residential market has held up better than neighboring Counties.



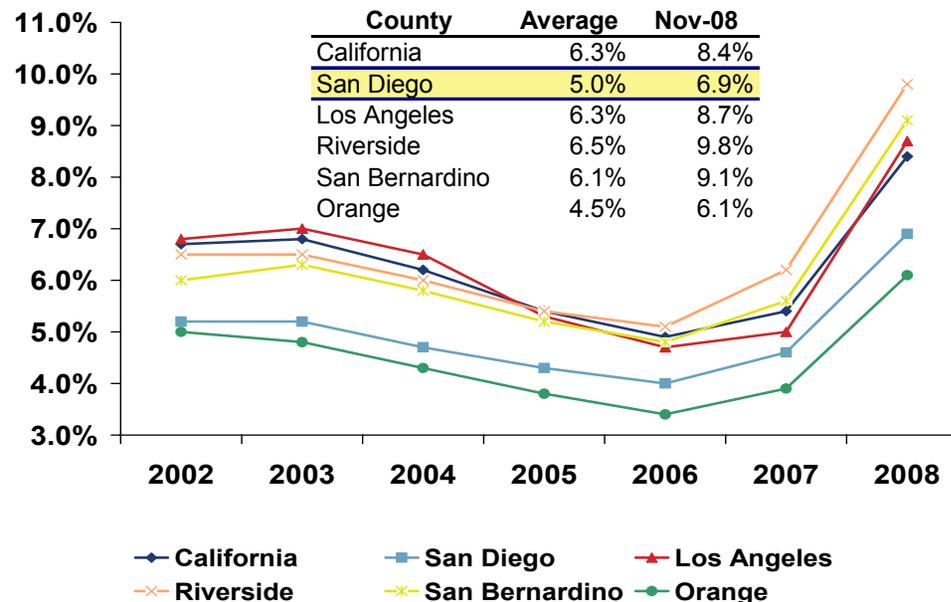
Source: DataQuick



County Employment

- The County's unemployment rate remains notably lower than the statewide rate and those of most of other Southern California counties
- By October, the number of jobs in San Diego in construction and financial activities, the two sectors hit hardest by job losses, stabilized, unlike the ongoing deterioration seen on the national level ¹
- It is anticipated that weak labor market conditions will persist through the first half of 2009, with the local unemployment rate peaking near 8.5% and recovery beginning during the second half, with the unemployment rate falling below 7.0% by the end of 2009 ¹

**Unemployment Rates In Southern California Counties
(2002 – November 2008)**



Source: California Employment Development Department

¹ San Diego Metropolitan, January 2009; Marney Cox, SANDAG Chief Economist



FY 2008-09 Tax Collections as of December 31, 2008

	2007	2008
Number of bills sent ¹	972,641	978,805
Amount billed ¹	\$ 4,378,837,767	\$ 4,559,699,678
Amount received ¹	2,235,944,814	2,334,275,901
Percentage of delinquencies ²	8.70%	7.76%
Number of delinquencies ²	84,662	75,943
Amount outstanding ²	\$ (170,170,061)	\$ (156,339,300)

1) Includes both 1st and 2nd installments on secured tax roll/real estate.

2) Delinquent collections for payments due on December 10, 2008 (1st installment) only.



Tax Collection Breakdown as of December 31, 2008

	2007	2008
Number of bills sent ¹	972,641	978,805
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Amount received ¹	2,235,944,814	2,334,275,901
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Amount outstanding ²	\$ (170,170,061)	\$ (156,339,300)

1st Installment – December 10, 2008			Chg.
Number of bills sent	978,805	--	
Amount billed	\$ 2,279,849,839	--	↑ 4%
Payments received	902,862	92.24%	↑ 1%
Amount received	\$ 2,123,510,540	93.14%	↑ 1%
Number of delinquencies	75,943	7.76%	↓ -1%
Amount outstanding	\$ 156,339,300	6.86%	↓ -1%

2nd Installment – April 10, 2009			Chg.
Number of bills sent	978,805	--	
Amount billed	\$ 2,279,849,839	--	
Payments received	188,616	19.27%	↓ -.7%
Amount received	\$ 210,765,362	9.24%	↓ -.7%

1) Includes both 1st and 2nd installments on secured tax roll/real estate.

2) Delinquent collections for payments due on December 10, 2008 (1st installment) only.



A review and update of the County's real estate market

- The FY 2008-09 AV was 4.6% higher than FY 2007-08. This was net of nearly 80,000 reductions due to the downturn in the residential real estate market.
- 40,315 Assessment Appeal Applications have been received for 2008.
- FY 2009-10 AV is expected to grow by approximately 2% despite the current stress on the real estate market.
- Notices of Default and Foreclosures over the last quarter are down from their 2008 highs. We believe this is primarily due to government intervention, specifically Senate Bill 1137, which lengthens the foreclosure process by requiring lenders to contact borrowers, evaluate their financial situation, and explore options in order to avoid foreclosure.

	2007	2008
Notices of Default	22,194	33,945
Foreclosures	8,417	19,528

Source: County of San Diego Assessor/Recorder/County Clerk.

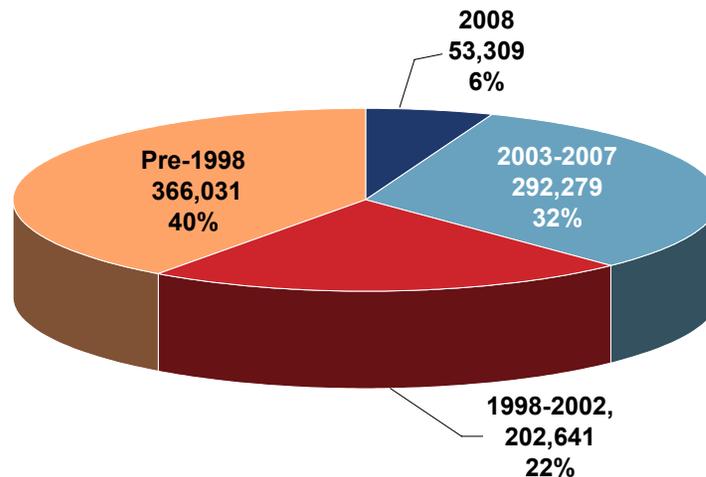


The County's AV rolls have cushion to absorb decreases in market value

- Approximately 32% of San Diego County properties last sold in the peak years of our local real estate market (2003-2007). Approximately 2/3 of these properties were single family dwellings or condominiums which have potentially declined in value.
- The remaining 68% of properties are not likely candidates for a downward reassessment as their base assessment was established either very recently (2008) or prior to 2003. If a property with a pre-2003 base was reassessed today, it would still reflect some appreciation since the time that the base value was established.

Historic AV Reassessments

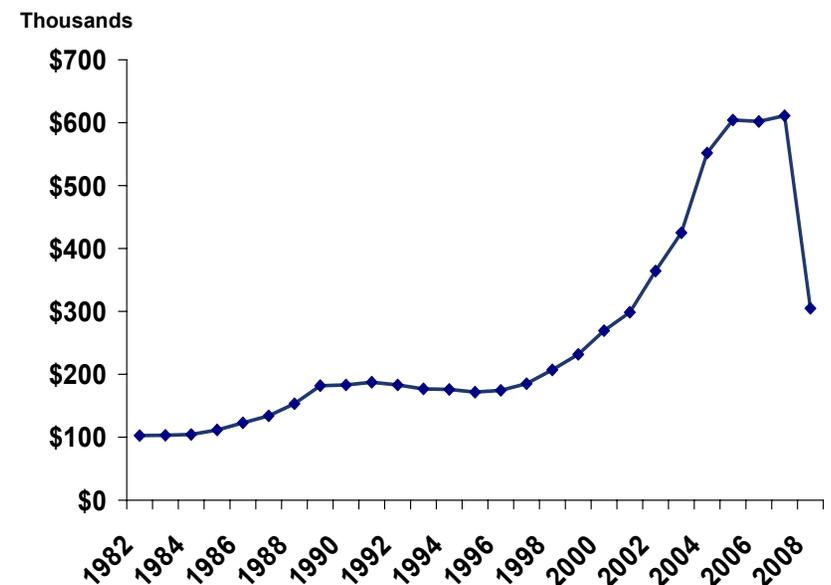
Base Year Value Established upon Last Change of Ownership
(Number of Parcels)



Note: As of December 24, 2008

Source: County of San Diego Assessor/Recorder/County Clerk

Historical Median Home Sale Prices County of San Diego



Note: 2008 figure as of November 2008; Source: California Association of Realtors



Property assessments continue to increase in a declining real estate market

- 2008 sales assessed through December 24th have netted an AV increase of \$1.46 Bn. This represents 63% of residential sales and 40% of commercial sales requiring reassessment for FY 2009-10.
- New construction has resulted in an AV increase of \$878 Mn. Currently only 21% of residential permits and 25% of commercial permits have been assessed.
- It is estimated that 75% of parcels will have their AV increased by the 2% annual inflation adjustment, adding an estimated \$6.7 billion in to the FY2009-10 AV.

Source: County of San Diego Assessor/Recorder/County Clerk.



III. County's Financial Performance





The County maintains strong fund balances

- The County spends one-time resources on one-time items not ongoing operational needs, which bolsters fund balances

Historic General Fund Balances

	FY 2005-06		FY 2006-07		FY 2007-08		FY 2008-09 1 st Qtr Projections	
	\$ Millions	% of FB	\$ Millions	% of FB	\$ Millions	% of FB	\$ Millions	% of FB
Total Reserved Fund Balance	\$272.9	30.4%	\$410.2	35.5%	\$273.2	22.4%	\$273.2 ¹	28.5%
Total Unreserved / Designated Fund Balance	190.5	21.2%	183.4	15.9%	375.9	30.8%	375.9 ¹	39.3%
Total Unreserved / Undesignated Fund Balance	435.5	48.4%	561.4	48.6%	571.4	46.8%	308.4 ²	32.2%
Total General Fund Balance	\$898.9		\$1,155.0		\$1,220.5		\$957.5	

1) Total Reserved Fund Balance and Total Unreserved / Designated Fund Balance for FY 2008-09 are assumed to be unchanged from the FY 2007-08 audited figures. Total Reserved Fund Balance includes the general reserve and reserves for loans, inventory, landfill maintenance and other purposes. Total Unreserved / Designated Fund Balance includes various designations for subsequent years' expenditures, landfill post-closure expenditures, and for encumbrances.

2) Total Unreserved / Undesignated Fund Balance represents the unreserved/undesignated/un-appropriated Fund Balance as of January 1, 2009 (\$571.4 Mn [Audited FY 2007-08 unreserved / undesignated fund balance] - \$214.7 Mn [appropriated for the FY 2008-09 operational plan] - \$30.0 Mn [appropriated by the Board of Supervisors in the First Quarter Status Report] - \$18.9 Mn [appropriated by the Board of Supervisors in other board actions] + \$0.6 Mn [2008-09 First Quarter Status Report projected GF year-end FB]).



Fiscal Year 2008-09 Projected Results

Fund Balance Status - General Fund

Unreserved/Undesignated Fund Balance (UUFB) as of June 30, 2008	\$ 571.40
Less amount used in FY 2008-09 Budget for one time expenses	(214.70)
Less subsequent uses approved by the Board of Supervisors	(48.90)
Total Available UUFB	\$ 307.80
1st Quarter Projection of FY 2008-09 Budgetary FB	\$ 0.60
Total Projected UUFB at June 30, 2009 (1)	\$ 308.40

(1) Assumes no further use of Available UUFB and that the 1st Quarter Projection holds true

1st Quarter Projection of FY 2008-09 Budgetary Fund Balance

	2008-09 Amended Budget	Projected Year End Results	Variance from Amended Budget
Total Expenditures	3,986.2	3,811.1	175.0
Total Revenues and Fund Balance Utilized	3,986.2	3,811.7	(174.4)
Net Savings from the 2008-09 Amended Budget		0.6	0.6

- \$175.0 Mn lower than budgeted expenditures primarily attributable to:
 - Appropriation savings of: \$32.1 Mn from budgeted salaries and benefits costs; \$70.9 Mn from services and supplies; \$29.6 Mn from other charges largely reflecting reduced caseload and aid payments in HHSA
 - \$42.8 Mn in reserves that are projected to be unspent at year-end
- \$174.4 Mn lower than budgeted revenue mainly comprised of the following negative variances:
 - \$115.2 Mn from intergovernmental revenues resulting from expenditure savings and projected \$31.2 Mn reduction in realignment revenues
 - \$26.7 Mn from property taxes
 - \$21.6 Mn from Proposition 172 sales tax



The County currently meets or exceeds all reserve targets

- Targets for reserves and unappropriated fund balances have been set and maintained or exceeded
- For FY 2008-09 the target for unappropriated, unreserved, undesignated fund balance is \$101.5 Mn, currently \$307.75 Mn remains unappropriated

Reserve Targets and Balances

FY 2008-09 GPR: \$1,014.7 Mn

	Target		Current
General Reserve	5%	\$50.7	\$55.5
Contingency Reserve	2%	\$20.3	\$20.3
Unappropriated Fund Balance	10%	\$101.5	\$307.8¹

¹ Does not reflect projected FY 2008-09 budgetary fund balance of approximately \$600,000



The County maintains low debt levels

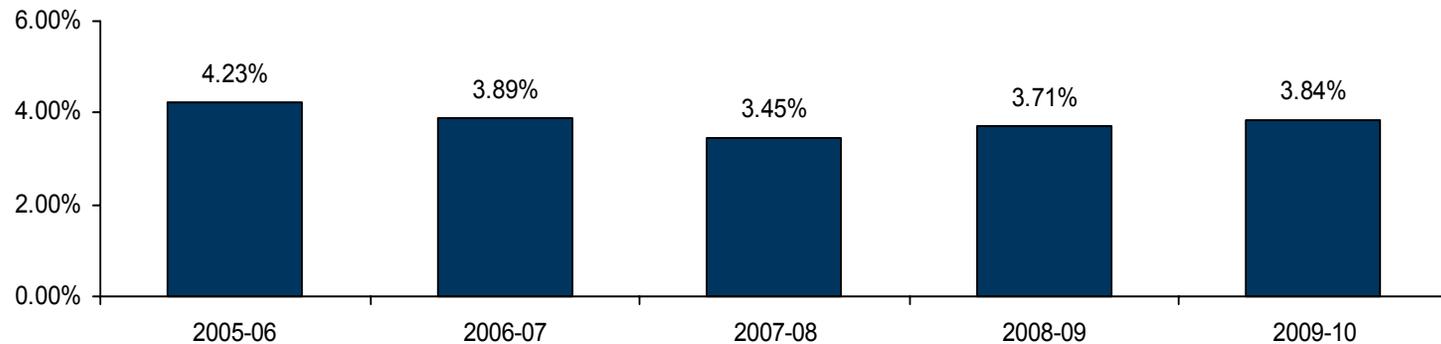
- Small percentage of revenues required to pay debt service
- Conservative approach towards the use of TRANs using only \$75 Mn of a legal capacity of at least \$220 Mn in 2008

Total Debt Outstanding

As of February 15, 2009 (in 000s)	Original Principal Amount	Principal Outstanding	Final Maturity Date
Certificates of Participation (COPs)	\$632,875	\$314,255	2030
Lease Revenue Bonds (LRBs)	36,960	25,865	2019
Pension Obligation Bonds (POBs)	1,029,843	1,004,325	2028
Total	\$1,699,678	\$1,344,445	
Series 2009A COC Lease Revenue Bonds (LRBs) ^(a)	\$141,720	\$141,720	2036
Projected Total	\$1,841,398	\$1,486,165	

(a) Estimated

County Debt Ratio ^(b)



(b) Ratio of total debt service to General Fund revenues.
Source: County of San Diego FY2008-09 and FY2009-10 Adopted Operational Plan



The County monitors upcoming capital and financing needs through its Capital Improvement Needs Assessment (CINA)

- Board of Supervisors Policy G-16: Capital Facilities and Space Planning
 - August - Annual Call for Projects
 - Facilities Planning Board Review
 - Recommendations for inclusion in CINA
 - Chief Administrative Officer - Review and Approval
 - Board of Supervisors - Review and Approval
 - Inclusion in Operational Plan

- County has a history of cash financing capital projects: \$160 Mn over the last three years

Capital Improvements Needs Assessment Program 2008-2013 Major Projects

Project	Project Estimate (\$Mn)	Amount Funded (\$Mn)	Estimated Remaining (\$Mn)	Potential Funding Source(s)
Women's Detention Facility ¹	\$308.45	\$1.60	\$306.85	County, State Provisional Award \$100 Mn AB900
Sheriff Station- Rancho San Diego	16.00	11.00	5.00	County
Multiple Species Conservation Program Land Acquisition	224.42	37.40	187.02	County, State, Federal, Private Donations
Cedar/Kettner Parking Structure	TBD	2.00	TBD	Private Development
CAC Waterfront Park ¹	72.20	8.40	63.80	County
Otay Valley River Active Recreation Land Acquisition & Sports Complex	15.00	15.00	0.00	N/A
Tijuana River Valley Sports Field	20.00	0.15	19.85	County, State, Federal
Total:	\$656.07	\$75.55	\$580.52	

¹ May result in future debt financing



Current and Future Challenges

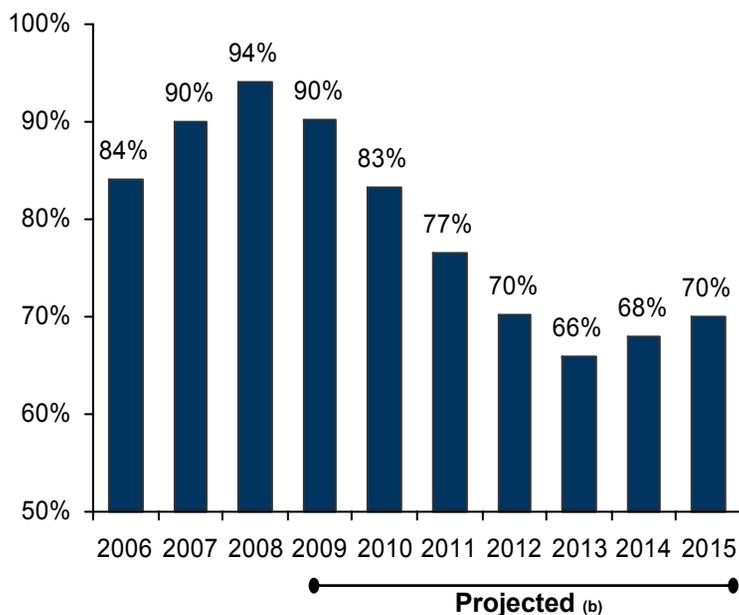
- Property tax base growth slowing
- Sales tax/vehicle license fees revenue shortfalls
- State structural budget issues
- 2009 labor negotiations
- Retirement investments



Historical and Projected Pension Funding Status

- The County prepaid \$164 Mn of its 2002 POBs
- The County is maintaining its plan to prepay the 2008 POBs over the next two years, with an initial prepayment of \$50 – 60 Mn in FY 2009-10, to lower debt service payments and help offset the increases in required contributions
- The County has contributed \$91.8 million *over and above* its pension Annual Retirement Contribution since Fiscal Year 2004-05
- The estimated loss from July 1, 2008 through October 31, 2008 was 25.9%; estimated total market value of assets: \$6.2 Bn

Historical & Projected Funded Ratio^(a)



(a) Source: The Segal Group, Inc. review as of October 31, 2008

Fiscal Year	County Contribution (\$Mn)	UAAL (\$Mn)	Funded Ratio
2006	\$244	\$1,232	83.6%
2007	321	832	89.7
2008	237	485	94.4
2009 ^(b)	234	902	90.3
2010 ^(b)	216	1,681	83.2
2011 ^(b)	258	2,516	76.5
2012 ^(b)	329	3,391	70.3
2013 ^(b)	407	4,154	66.0
2014 ^(b)	492	4,188	67.9
2015 ^(b)	572	4,150	70.2

(b) Projections based on a 27% loss for FY 2008-09 and the Assumed Rate of Return of 8.25% for the subsequent years



The County's Plan for FY 2009-10

- Reduce General Purpose Revenue and Program Revenue Expenditures
 - The County has completed an analysis of the impacts of a 5%, 10%, and 15% reduction in GPR
 - Plans for FY 2009-10 include a reduction in workforce and the review and prioritization of every program at the County
 - Board remains firm in its position to not backfill State cuts

- Labor Negotiations



IV. Overview of County Operations Center (COC) Project and Series 2009A Financing





The new COC will consolidate and streamline County operations



Phasing	Construction Costs (\$Mn)	Start	Completion
Phase 1A	\$188.5	In Progress	Dec 2010
Phase 1B	\$119.9	Dec 2010	Sep 2012
Phase 2	\$150.0	Sep 2012	May 2014

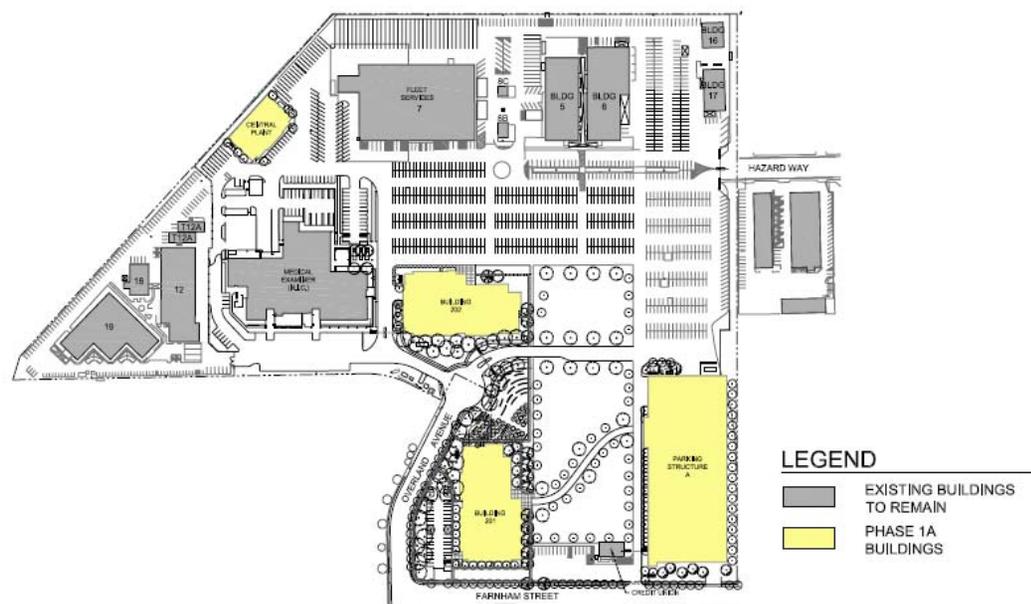
- Series 2009A Bonds are being issued to fund a portion of Phase 1A of the project

- The COC and Annex are on nearly 57 acres of land centrally located about 10 miles north of downtown San Diego, and house 2,280 County employees from 26 County departments on two campuses
- Construction to replace the 40-year old facilities and will take place over three phases which began in late 2008 and will be completed in 2014
- Designed to LEED Silver Standard with improved energy efficiency and sustainability
- Improvements will include:
 - 6 four-story buildings of 150,000 square feet each
 - A 20,000 square-foot conference center with food services
 - A new central plant
 - 2 multi-level parking structures



Overview – COC Components

2008 COC Capital Project - Phase 1A



- Phase 1A Improvements (in yellow):
 - 2 office buildings
 - 1 parking garage
 - A new energy-efficient central plant
 - Off-site improvements to improve road access and mitigate additional traffic impacts
- Designed to stand-alone if Phases 1B or 2 are not implemented



Fixed Rate Series 2009A Sources and Uses

Total Series 2009A COC Bonds Sources and Uses

Sources Of Funds

Par Amount of Bonds	\$ 141,720,000
Original Issue Discount (OID)	(808,234)
County Cash Contribution	75,000,000
Total Sources	\$ 215,911,766

Uses Of Funds

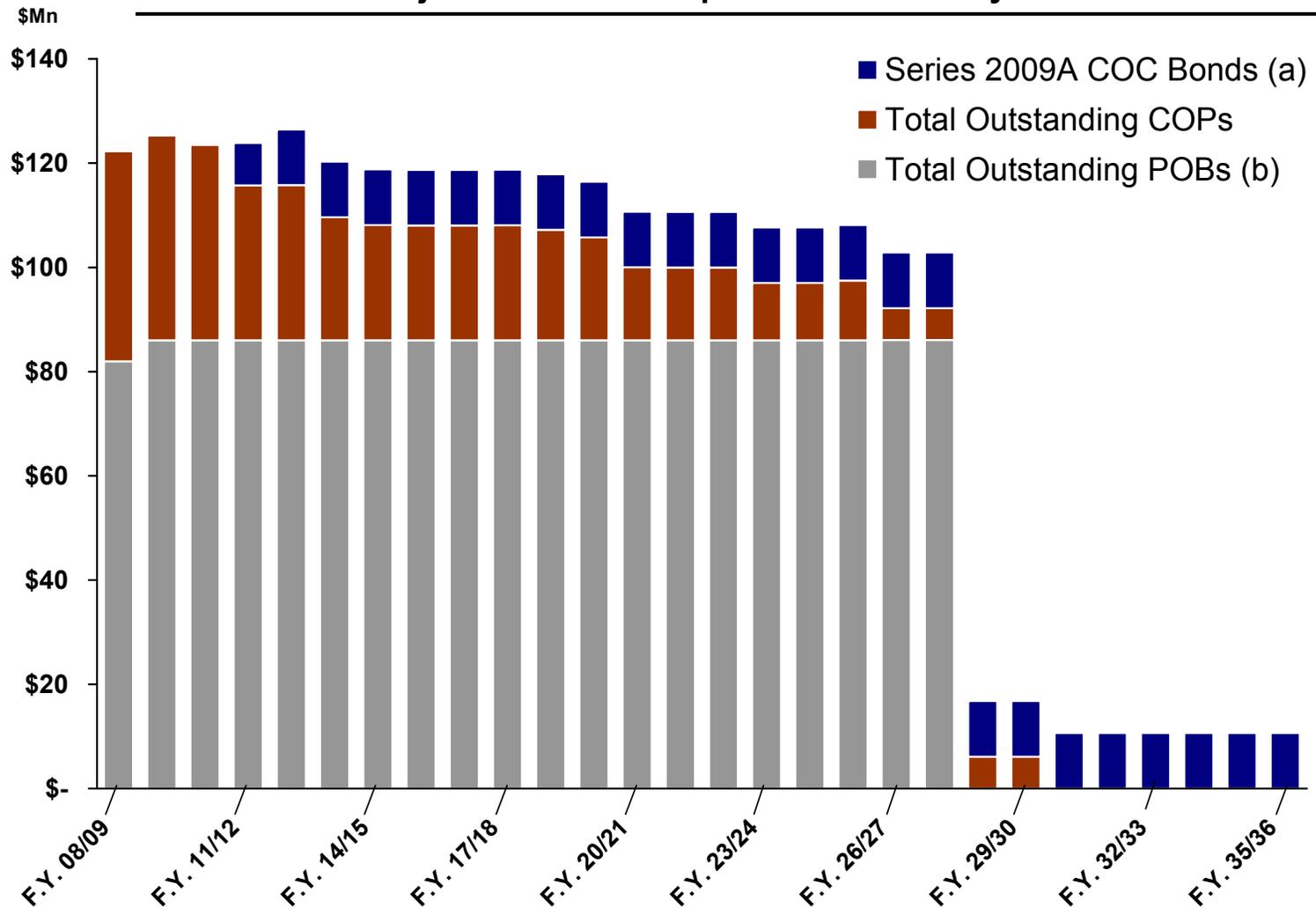
Deposit to Project Construction Fund	\$ 187,157,781
Deposit to Capitalized Interest (CIF) Fund	16,656,602
Deposit to Debt Service Reserve Fund (DSRF)	10,666,800
Costs of Issuance	1,430,583
Total Uses	\$ 215,911,766

Note: Preliminary, subject to change.



General Fund Debt Profile

Projected Total Principal and Interest Payments



(a) Series 2009A COC Bonds are preliminary. Subject to change. Series 2009A COC Bonds are shown net of capitalized interest.
(b) The Series 2008B POBs bear interest at a variable rate; such interest rate is assumed to be 4.61% (10-yr. average of LIBOR).



Key Milestones for Series 2009A COC Plan of Finance (Phase 1A)

Date	Activity
January 20 th	Receive Ratings
January 27 th	County Board Approves Financing
January 28 th	San Diego Regional Building Authority Approves Financing
	Post POS
February 11 th	Price Bonds
February 26 th	Closing

Note: Preliminary, subject to change.



V. Closing Remarks





Conclusion

- **Consistent with our strategic plan and objectives, we have maintained a structurally balanced budget through good times and bad, and will continue to do so**
- **We are well positioned to manage the challenges at hand, including the economic slowdown, impact of State budgetary actions, and changing needs of our residents**
 - The County Board maintains its position of making necessary budget cuts given the economic situation
 - County staff has begun a comprehensive review and prioritization of all programs
- **We have institutionalized and maintained conservative and prudent fiscal management practices**
 - Consistently strong fund balances and stable reserves
 - On-going assessment of current and future capital needs
- **We have maintained stability and continued growth in challenging market conditions**
 - 4.6% AV growth for FY 2008-09; 2.0% AV growth projected for FY 2009-10
 - We have an AV cushion provided by an established real estate base
- **We operate within a stable and diversified economy**

We are seeking affirmation of our ratings