



County of
San Diego

County of San Diego

Rating Agency Update
Pension Obligation Bond Refunding
July 9th, 2008



The Noblest Motive is the Public Good



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San Diego



Introductions - Participants

[County of San Diego Presenters](#)

Donald F. Steuer, *Chief Financial Officer*

Dan McAllister, *Treasurer-Tax Collector*

Gregory J. Smith, *Assessor/Recorder/County Clerk*

Christine Fay, *Debt Finance Manager*

[Additional County Resources](#)

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

Lisa Marie Harris, *Chief Deputy Treasurer*

Janel Pehau, *Director, Office of Financial Planning*

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

Joan Pan, *Debt & Capital Finance Officer*

Rob Castetter, *Chief Investment Officer*

Michelle Durgy, *Investment Officer*

Jeff Olson, *Division Chief, Assessor/Recorder/County Clerk*

[Finance Team](#)

Mark Young, *Gardner, Underwood & Bacon (FA)*

Chris Mukai, *Citi (Senior Manager)*

Margie Backstrom, *Morgan Stanley (Co-Senior Manager)*

Raul Amezcua, *De la Rosa & Co. (Co-Manager)*



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Objectives

- Provide general County updates.
- Present an overview of the proposed Pension Obligation Bond ("POB") Auction Rate Securities ("ARS") refunding.
- Receive rating affirmations on Pension Obligation Bond debt.





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County Updates

- Assessed Valuation
 - 4.6% growth for FY2008-09.
 - Locally assessed value of \$409.4 billion.*
- Tax Collection Update
 - Tax revenues rose nearly 8% in FY2007-08.
 - Delinquencies had a slight gain over the same period.
- SDCERA Board Decisions
 - Retirement Board elected to review economic assumptions every three years, instead of annually.
 - Assumed Rate of Return remains at 8.25% until the next review in 2010.
- Board of Supervisors approved the Operational Plan on June 24, 2008; full adoption expected on July 22, 2008.

*Does not include state unitary figures.



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Overview

- The County of San Diego issued \$505,125,000 in ARS in 2002 as part of its Pension Obligation Bond Program.
- The ARS were credit enhanced with MBIA bond insurance.
- The County entered into interest rate swaps with Citi and Morgan Stanley at the time of issuance, synthetically fixing the rate on \$405,125,000.
- Due to the subprime credit crisis, the County's auctions began to fail on February 13, 2008.
 - All auctions since then have failed, resetting at the maximum rate.
 - The County's ARS have a maximum rate which is capped at 150 basis points over 1-month LIBOR.
- The County has assembled a finance team and approved the plan to restructure all of the outstanding 2002B ARS on the next interest payment date August 15, 2008.



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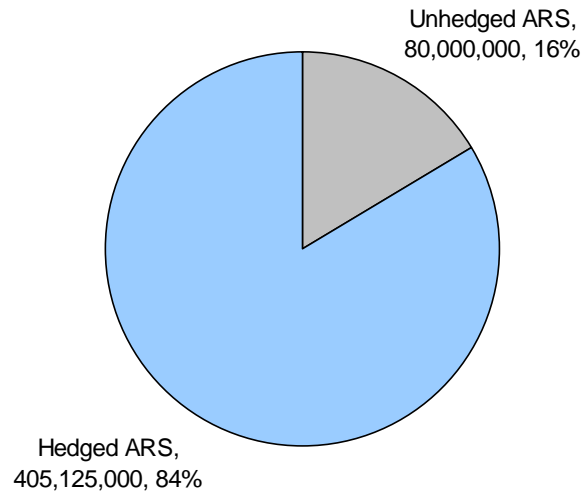


San Diego County POB ARS Portfolio (as of 6/30/08)

Series	Mode	Insurer	Par	Synthetic Fixed?
Series 2002B-1	28-day ARS	MBIA	\$80,000,000	No
Series 2002B-2	28-day ARS	MBIA	\$135,025,000	Yes
Series 2002B-3	28-day ARS	MBIA	\$135,050,000	Yes
Series 2002B-4	28-day ARS	MBIA	\$135,050,000	Yes

Total Floating Rate Debt Outstanding :

\$485,125,000



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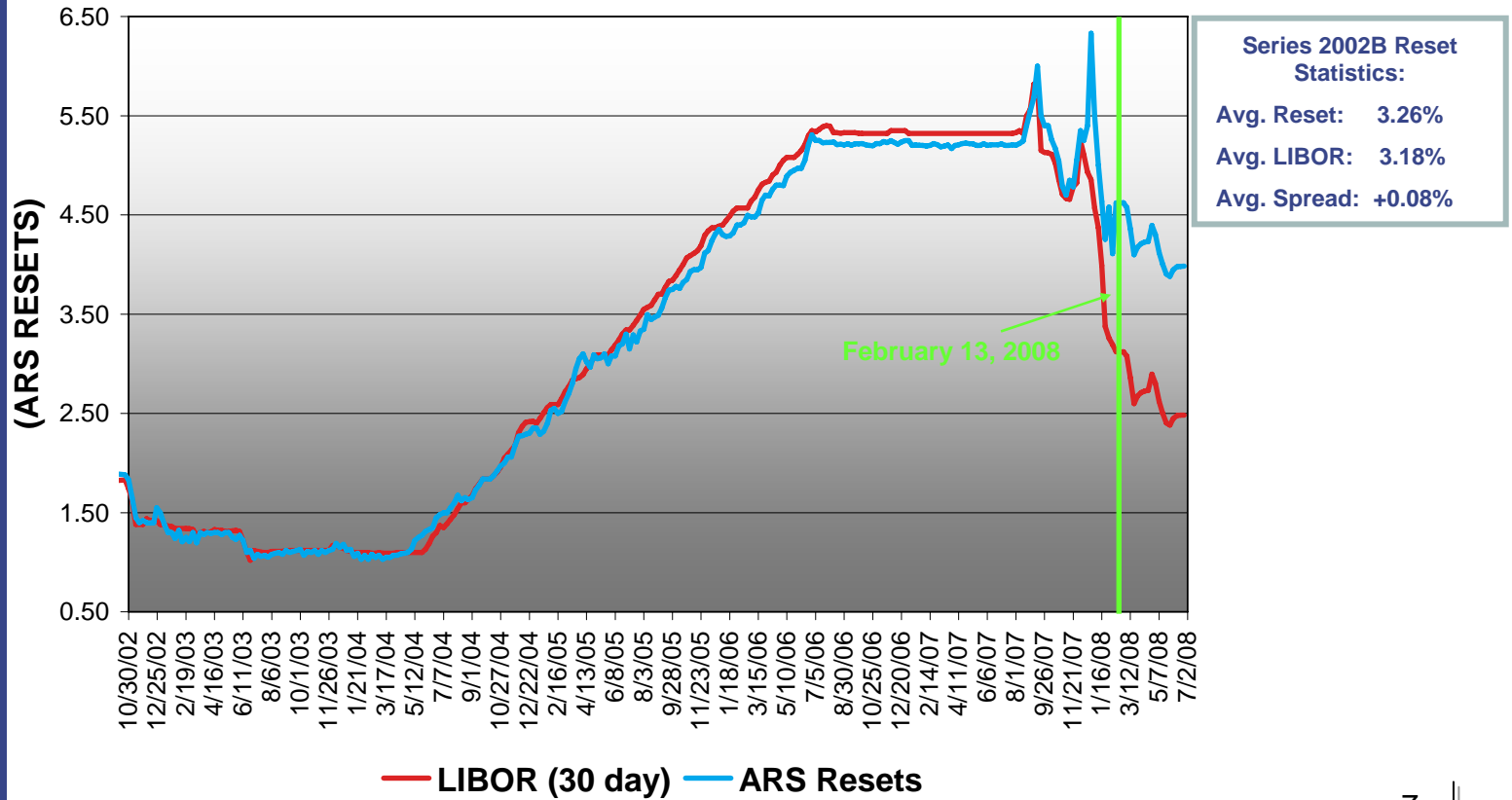


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Historical Performance of County's ARS

- Due to the subprime credit crisis, the County's auctions began failing on February 13, 2008 and the 2002 ARS began to reset at the maximum rate of 1-month LIBOR +150 bps, versus 1-month LIBOR -2 bps before February 13, 2008.
- Since inception in September 2002, the County's Series 2002 ARS have reset on average 8 bps higher than 1-month LIBOR.

Series 2002B Historical Performance



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Plan of Finance for POB Refunding

- The plan of finance has four basic components:
 - Prepay an additional \$44 million of Series 2002B-1 ARS, per FY2008-09 Budget
 - Issue \$343.6 million in Taxable uninsured Fixed Rate Bonds
 - Issue \$100 million in Taxable Variable Rate Demand Bonds with a Standby Purchase Agreement from Landesbank Baden-Wurttemberg ("LBBW")
 - Cash contribution by County to pay termination payment on the swap (\$23.4 million as of June 30, 2008)
- Debt service on the refunding bonds will be structured to provide level savings relative to the existing debt profile.



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Benefits of Refunding Plan

- Upon completion of the Refunding Plan, the County's debt and risk profile will have been measurably improved:
 - Projected debt service savings versus leaving ARS outstanding of \$103 million in cashflow savings and \$35 million in present value savings
 - All outstanding Auction Rate Securities will be redeemed
 - No financial exposure to bond insurers
 - Elimination of counterparty and basis risk in relation to interest rate swaps
 - \$100 million in variable rate bonds with monthly prepayment flexibility to continue paying down pension debt early





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Sources and Uses of Funds – POB Refunding

Total Issue Sources And Uses

Dated 08/06/2008 | Delivered 08/06/2008

**2008 POB
Refunding**

Sources Of Funds

Par Amount	\$443,555,000.00
Cash Contribution for Principal Reduction	44,000,000.00
Cash Contribution For Swap Termination	23,383,128.60
Transfer from July 5th 2002 POB D/S Deposit	15,998,250.00

Total Sources \$526,936,378.60

Uses Of Funds

Deposit to Current Refunding Fund	500,881,098.26
Swap Termination Payment	23,383,128.60
Costs of Issuance	2,672,151.74

Total Uses \$526,936,378.60



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Refunding Analysis – Projected Cost of ARS

- Assuming the County's ARS continue to price at a spread of 150 bps over 1-month LIBOR, the following is the projected debt service cost.*

Fiscal Year	Citi Swap			Morgan Stanley Swap			Series B-1 Bonds (Unhedged)			10 Combined Total Cost to County
	1 Principal	2 Interest at Swap Rate (5.30%)	3 Ongoing Fees (0.31%) and Spread to LIBOR (1.50%)	4 Principal	5 Synthetic Fixed Interest Rate (5.30%)	6 Ongoing Fees (0.31%) and Spread to LIBOR (1.50%)	7 Principal	8 ARS Interest plus 1.50% over LIBOR (5.56%)	9 Ongoing Fees (0.31%)	
6/30/2009	0	13,956,225	4,766,183	0	7,515,400	2,566,580	0	4,448,000	248,000	33,500,388
6/30/2010	0	13,956,225	4,766,183	0	7,515,400	2,566,580	0	4,448,000	248,000	33,500,388
6/30/2011	0	13,956,225	4,766,183	0	7,515,400	2,566,580	0	4,448,000	248,000	33,500,388
6/30/2012	0	13,956,225	4,766,183	0	7,515,400	2,566,580	0	4,448,000	248,000	33,500,388
6/30/2013	0	13,956,225	4,766,183	0	7,515,400	2,566,580	0	4,448,000	248,000	33,500,388
6/30/2014	0	13,956,225	4,766,183	0	7,515,400	2,566,580	0	4,448,000	248,000	33,500,388
6/30/2015	0	13,956,225	4,766,183	0	7,515,400	2,566,580	2,875,000	4,368,075	241,316	36,288,778
6/30/2016	0	13,956,225	4,766,183	0	7,515,400	2,566,580	3,050,000	4,203,360	231,996	36,289,744
6/30/2017	11,875,000	13,641,538	4,649,511	6,400,000	7,345,800	2,503,700	3,250,000	4,028,220	222,076	53,915,844
6/30/2018	12,550,000	12,994,275	4,427,941	6,775,000	6,996,663	2,384,176	3,450,000	3,841,960	211,536	53,631,551
6/30/2019	13,275,000	12,309,913	4,193,663	7,150,000	6,627,650	2,257,864	3,675,000	3,643,885	200,318	53,333,293
6/30/2020	14,050,000	11,585,800	3,945,771	7,550,000	6,238,100	2,124,519	3,900,000	3,433,300	188,403	53,015,893
6/30/2021	14,825,000	10,820,613	3,683,852	8,000,000	5,826,025	1,983,443	4,150,000	3,209,510	175,731	52,674,173
6/30/2022	15,700,000	10,011,700	3,406,923	8,450,000	5,390,100	1,834,221	4,400,000	2,971,820	162,285	52,327,049
6/30/2023	16,600,000	9,155,750	3,113,910	8,950,000	4,929,000	1,676,364	4,675,000	2,719,535	148,006	51,967,564
6/30/2024	17,550,000	8,250,775	2,804,116	9,450,000	4,441,400	1,509,456	4,975,000	2,451,265	132,816	51,564,828
6/30/2025	18,575,000	7,293,463	2,476,391	10,000,000	3,925,975	1,333,008	5,300,000	2,165,620	116,638	51,186,093
6/30/2026	19,625,000	6,281,163	2,129,867	10,575,000	3,380,738	1,146,358	5,625,000	1,861,905	99,452	50,724,482
6/30/2027	20,775,000	5,210,563	1,763,356	11,175,000	2,804,363	949,056	5,975,000	1,539,425	81,201	50,272,962
6/30/2028	21,975,000	4,077,688	1,375,538	11,825,000	2,194,863	740,402	6,350,000	1,196,790	61,806	49,797,086
6/30/2029	23,250,000	2,879,225	965,264	12,500,000	1,550,250	519,738	6,750,000	832,610	41,191	49,288,278
6/30/2030	24,575,000	1,611,863	531,421	13,225,000	868,538	286,364	7,200,000	444,800	19,220	48,762,205
6/30/2031	18,125,000	480,313	149,984	9,775,000	259,038	80,888	4,400,000	122,320	3,410	33,395,953
6/30/2032	0	0	0	0	0	0	0	0	0	0
6/30/2033	0	0	0	0	0	0	0	0	0	0
	\$263,325,000	\$228,254,438	\$77,746,967	\$141,800,000	\$122,901,700	\$41,862,195	\$80,000,000	\$69,722,400	\$3,825,400	\$1,029,438,100

*Preliminary, subject to change. Assumes hedged ARS bear interest at 7.11% (5.30% swap rate plus 0.31% for ongoing fees plus 1.50% for Applicable Spread to LIBOR). Assumes unhedged ARS bear interest at 5.87% (4.06% which is the 10-year average 1-month LIBOR plus 0.31% for ongoing fees plus 1.50% for Applicable Spread to LIBOR).



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Refunding Analysis – Projected Cashflow Relief

- The proposed refunding is estimated to provide cashflow relief of approximately \$103 million over the life of the financing (\$35 million in present value savings).*

Fiscal Year	2008 Fixed Rate Refunding Bonds			2008 VRDO Refunding Bonds			7 Combined Total Cost to County	8 (Cost) or Benefit When Compared to Base Case	9 Present Value of Difference @ 5.712%
	1 Principal	2 Fixed Interest Rate (6.00% AIC)	3 Prepaid Escrow Costs	4 Principal	5 VRDO Interest @ LIBOR (4.06%)	6 Ongoing Fees (0.52%)			
6/30/2009	0	10,677,940	15,998,250	0	3,484,833	407,185	30,568,208	2,932,179	2,796,962
6/30/2010	400,000	20,327,594	0	0	4,060,000	532,400	25,319,993	8,180,394	7,404,372
6/30/2011	400,000	20,304,914	0	0	4,060,000	532,400	25,297,313	8,203,074	7,045,447
6/30/2012	400,000	20,282,234	0	0	4,060,000	532,400	25,274,633	8,225,754	6,703,869
6/30/2013	400,000	20,259,554	0	0	4,060,000	532,400	25,251,953	8,248,434	6,378,804
6/30/2014	500,000	20,234,039	0	0	4,060,000	532,400	25,326,438	8,173,949	5,998,153
6/30/2015	500,000	20,205,689	0	2,900,000	3,961,883	520,973	28,088,544	8,200,234	5,709,917
6/30/2016	500,000	20,177,339	0	3,000,000	3,840,760	505,342	28,023,440	8,266,303	5,461,762
6/30/2017	17,000,000	19,681,214	0	4,875,000	3,655,523	482,192	45,693,928	8,221,917	5,154,807
6/30/2018	18,000,000	18,688,964	0	4,800,000	3,460,135	456,874	45,405,972	8,225,578	4,893,546
6/30/2019	19,000,000	17,640,014	0	4,740,000	3,267,285	431,891	45,079,190	8,254,103	4,659,561
6/30/2020	19,800,000	16,510,334	0	4,980,000	3,066,721	406,041	44,763,096	8,252,797	4,420,732
6/30/2021	20,500,000	15,307,379	0	5,245,000	2,855,567	378,832	44,286,778	8,387,395	4,263,223
6/30/2022	21,500,000	14,053,679	0	5,505,000	2,633,823	350,250	44,042,752	8,284,296	3,995,623
6/30/2023	22,500,000	12,740,279	0	5,790,000	2,400,678	320,204	43,751,161	8,216,404	3,760,352
6/30/2024	23,500,000	11,367,179	0	6,100,000	2,155,116	288,562	43,410,856	8,153,972	3,541,065
6/30/2025	24,400,000	9,937,364	0	6,430,000	1,896,291	255,212	42,918,866	8,267,227	3,406,767
6/30/2026	25,400,000	8,450,834	0	6,760,000	1,624,068	220,129	42,455,030	8,269,452	3,233,532
6/30/2027	26,400,000	6,904,604	0	7,110,000	1,337,770	183,232	41,935,606	8,337,356	3,093,476
6/30/2028	27,500,000	5,295,689	0	7,485,000	1,036,416	144,399	41,461,504	8,335,583	2,934,758
6/30/2029	28,700,000	3,618,119	0	7,880,000	719,161	103,516	41,020,796	8,267,482	2,762,024
6/30/2030	28,505,000	1,910,549	0	9,600,000	341,040	55,337	40,411,926	8,350,279	2,647,117
6/30/2031	17,750,000	529,838	0	6,800,000	46,013	15,932	25,141,783	8,254,170	2,482,924
6/30/2032	0	0	0	0	0	0	0	0	0
6/30/2033	0	0	0	0	0	0	0	0	0
	\$343,555,000	\$315,105,332	\$15,998,250	\$100,000,000	\$62,083,084	\$8,188,102	\$844,929,768	\$184,508,332	\$102,748,793

Contribution for Principal Reduction **\$44,000,000**
 Contribution for Swap Termination: **23,383,129**
 Net P.V. of Refunding **\$35,365,664**

*Preliminary, subject to change. Final gross and present value savings will depend on the termination value of the swap and the final pricing for the Series 2008 refunding. Assumes 2008 Variable Rate POB debt bears interest at 10-yr average 1-month LIBOR (4.06%) plus ongoing fees (0.52%) for the life of the bonds.

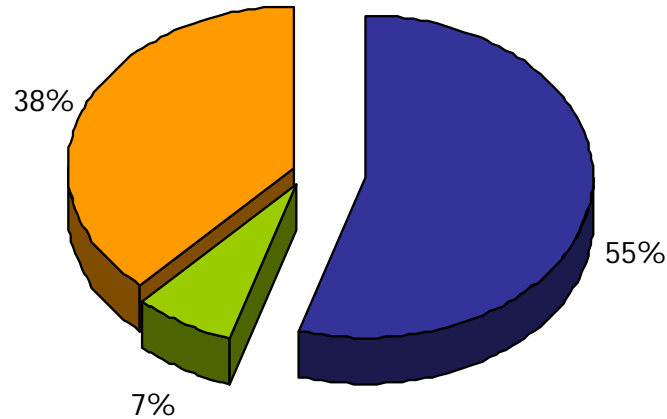


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Restructured Pension Obligation Bond Debt Mix

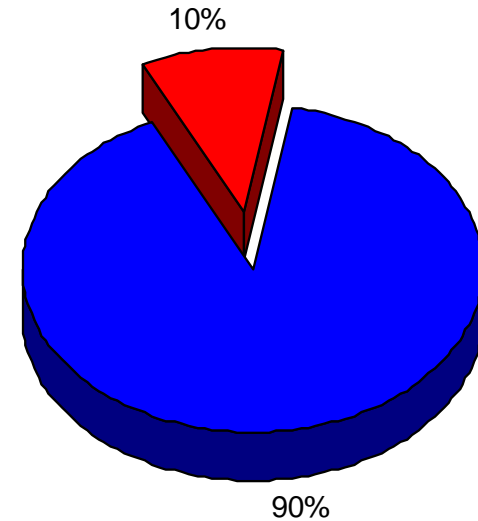
Current POB Debt By Type



■ Fixed Rate ■ Variable Rate ■ Swapped to Fixed

Debt Type	POB Debt as of 6/30/08	% of POB Debt
Fixed Rate	\$583,075,000	55%
Variable Rate	80,000,000	7%
Swapped to Fixed	405,125,000	38%
Total	\$1,068,200,000	100%

POB Debt By Type After Refunding



■ Fixed Rate ■ Variable Rate

Debt Type	POB Debt as of 8/15/08	% of POB Debt
Fixed Rate	\$901,915,000	90%
Variable Rate	100,000,000	10%
Total	\$1,001,915,000	100%



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Key Milestones for POB Plan of Finance

Milestone:	Date:
• Trustee mails conditional redemption notices	July 15 th
• Final Board Approval of financing	July 22 nd
• Receive Fixed Rate Ratings	July 23 rd
• Post Fixed Rate POS	July 23 rd
• Receive Variable Rate Ratings	July 25 th
• Post Variable Rate POS	July 25 th
• Price Uninsured Fixed Rate Bonds	July 29 th
• Set Rate on Variable Rate Demand Bonds	August 5 th
• Close 2008 Refunding	August 6 th
• Redemption of Series 2002B Bonds	August 15 th

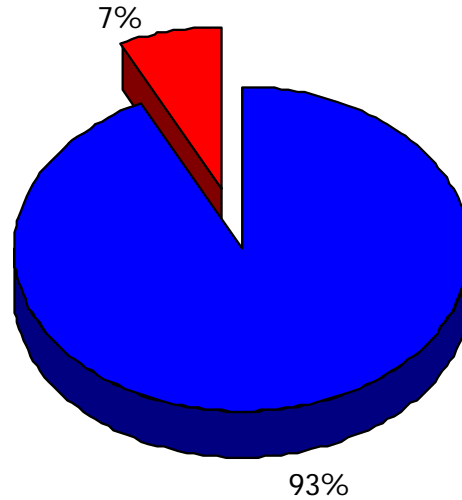


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Projected County General Fund Debt Mix after 2008 POB Refunding

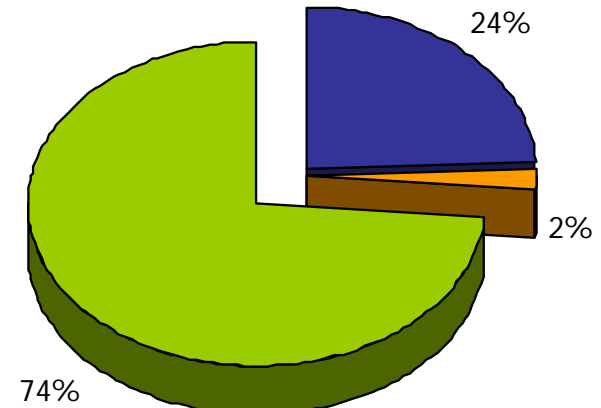
Long-Term Debt By Type



■ Fixed Rate ■ Variable Rate

Debt Type	Outstanding General Fund Debt	% of GF Debt
Fixed Rate	\$1,259,560,000	93%
Variable Rate	100,000,000	7%
Total	\$1,359,560,000	100%

Long Term Debt By Entity



■ SANCAL ■ SDRBA ■ County (POBs)

Entity	Outstanding General Fund Debt	% of GF Debt
SANCAL	\$330,055,000	24%
SDRBA	27,590,000	2%
County (POBs)	1,001,915,000	74%
Total	\$1,359,560,000	100%

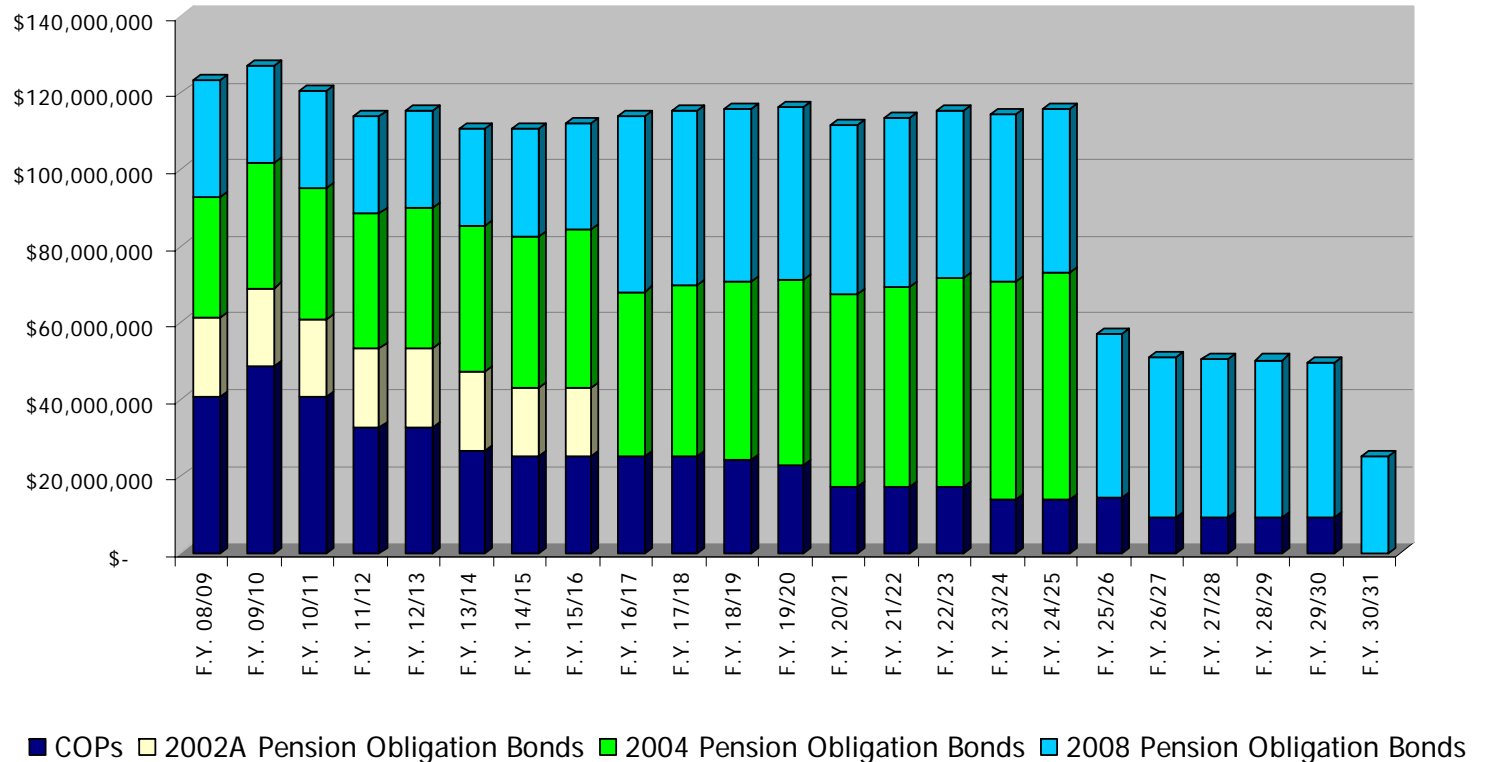


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Projected County General Fund Debt Service Profile

Restructured Outstanding Principal and Interest Payments*



* Preliminary, subject to change. Assumes 2008 Variable Rate POB debt bears interest at 10-yr average 1-month LIBOR (4.06%) plus ongoing fees (0.52%) for the life of the bonds.



County of San Diego



Conclusion

- The County is looking for a rating affirmation on its Pension Obligation Bond debt.
- POB ARS Refunding Plan affords the County the following benefits:
 - ✓ Debt service savings
 - ✓ Reduced counterparty and basis risk
 - ✓ Greater financial flexibility provided by call feature of VRDBs
- We are well-positioned to manage future challenges, including economic slowdowns, potential impact of State budgetary actions, and changing demands of our residents.
- We will continue practice of retiring debt early.
- The County maintains Fund Balance cushion.
- The County has strong and institutionalized financial management practices.