FITCH RATES SAN DIEGO REGIONAL BUILDING AUTHORITY'S (CALIFORNIA) $293MM LEASE REVS 'AA'

Fitch Ratings-San Francisco-25 September 2008: Fitch assigns an 'AA' rating to San Diego Regional Building Authority (the authority), California's $217.5 million lease revenue bonds (county operations center and annex redevelopment project) series 2008A and assigns and underlying 'AA' rating to $75 million in authority lease revenue bonds (county operations center and annex redevelopment project) series 2008B-1 and B-2 (variable rate demand obligations.) The variable rate bonds also will be secured by an irrevocable direct-pay letter of credit (LOC) provided by Wells Fargo Bank. Fitch will release a rating based on the LOC closer to the pricing. The fixed and variable rate mix is subject to market conditions, with separate sales scheduled for each series in early Oct. Both series will be sold by negotiation.

Fitch also affirms the following ratings:

--Implied San Diego County general obligation at 'AA+';
--$1.09 billion in San Diego County pension obligation bonds at 'AA';
--$197.9 million in San Diego County certificates of participation (COPs) (1996 North & East County Regional Justice Facilities Refunding) series 1998, 1999, 2005, and 2006 at 'AA'; and
--$27.6 million in San Diego Regional Building Authority COPs at 'AA'.

The Rating Outlook for all ratings is Stable.

The ratings reflect San Diego County's (the county) very low debt burden, sound financial operations, and very strong and effective financial and debt policies, as well as concern over the economic and financial impact of the significant weakness in the residential real estate market. Fitch believes the county's strong fiscal discipline and high reserve levels should enable it to sustain sound finances despite minimal tax base growth and likely state aid reductions.

The county's economy is performing reasonably well despite the severe housing market downturn. The residential decline is evident in a variety of measures, including a 24% drop in the single-family home median sales price from the first quarter of 2006 to the first quarter of 2008, a more than four-fold increase in the number of foreclosures in 2007 as compared to 2006, and an equally dramatic rise in the number of taxable parcels with assessment appeals pending. Nonetheless, job growth continues, albeit at a slower pace, and the county's unemployment rate remains below the state average. The county's June 2008 jobless rate rose to 6.0%, below the state's 7.0% but above the nation's 5.5%. Tax base growth has slowed to a moderate 4.6% for fiscal 2009, down from an average 10.4% per year from fiscals 2002-2008.

The county's financial operations remain healthy and leave it well-positioned to handle an economic and revenue slowdown. Prior years benefitted from the county's economic growth and related revenue generation as well as prudent spending and adherence to strong financial policies. Audited results for fiscal 2007 show the general fund running its sixth and largest operating surplus in the last eight fiscal years. The unreserved general fund balance rose to $744.8 million, a very high 25.2% of the year's nearly $3 billion in spending. The county expects fiscal 2008 to show a small operating surplus, as spending controls and some revenue performance offset weaker sales tax results and costs associated with the fall, 2007 firestorms. Fitch expects the county's prudent management efforts to continue and fiscal stability to be retained.

The fiscal 2009 budget is balanced using $214.9 million in prior years' fund balance. Fitch views this level as acceptable given the county's sizable reserves, the use for one-time expenses, and the county's history of showing better than budgeted performance. Spending growth is moderate at 4.5%, smaller than in recent years, reflecting the slowing economy. Appropriations incorporate increases in priority areas such as public safety and health and human services that are partially offset by reductions in other areas.

The budget does not adjust for possible actions by the state to close its sizable budget gap. The county will amend the budget in response to the state's actions once the state's budget is adopted. County officials have stated their intent to make program reductions equal to any state funding changes. The budget also is vulnerable to the recently settled changes to eligibility for the County Medical Services program. While the county estimates the cost increase to be manageable relative to the budget, the new eligibility encompasses a substantially larger group than previously covered, making the budgeted figure inherently susceptible to revision.

The county's very low debt burden and history of early debt defeasance also support the high ratings. Bond proceeds will be combined with $75 million in cash to fund a new county operations center (COC), a facility for county workers currently located in an old building on this site and in leased space throughout the county. The new project consists of four office buildings, a parking structure, central plant, and off-site improvements as Phase I of a two-part project. The county will evaluate its need for Phase II in about two years. The county has used annual budget resources for capital projects in the past, thereby building flexibility into its budget and keeping its debt burden low.

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