# Riverside Public Financing Authority, California

## Lease Revenue Refunding Bonds

### New Issue Report

### Ratings

**New Issue**

| | |
|---|---|
| Lease Revenue Refunding Bonds, Series 2012A | AA– |
| **Outstanding Debt** | |
| General Obligation Bonds | AA |
| Pension Obligation Bonds | AA– |
| Certificates of Participation | AA– |
| Lease Revenue Certificates of Participation | A+ |
| Taxable Pension Obligation Refunding Bond Anticipation Notes | F1+ |

### Rating Outlook

Stable

### Related Research

Fitch Rates Riverside, CA Lease Rev Rfdg Bonds 'AA–'; Outlook Stable, July 31, 2012

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## New Issue Details

**Sale Information:** Approximately $39,300,000 Lease Revenue Refunding Bonds, Series 2012A, via negotiation the week of Aug. 6.

**Security:** The lease revenue refunding bonds are secured by lease payments made by the city of Riverside to the Riverside Public Financing Authority (the authority) for use and occupancy of essential city facilities that include the city hall complex and police patrol facility. The lease payments are subject to abatement, which is somewhat mitigated by rental interruption insurance equal to two years of lease payments. The series 2012A will not have a debt service reserve fund.

**Purpose:** To refund the authority's outstanding certifications of participation (COPs), series 2003, for present value savings of $2.67 million.

**Final Maturity:** Nov. 1, 2033.

## Key Rating Drivers

**Consistently Good Financial Performance:** The city has consistently maintained healthy reserves aided by expenditure flexibility and diverse revenue sources.

**Weak Economy:** Although still recovering from a hard hit housing market, the city's economy is starting to stabilize, with declines in still high unemployment levels and a small uptick in the tax base.

**Revenue Diversity:** With about 50% of revenues generated by property and sales tax, and 18% generated from an annual transfer from its utilities, revenues are diverse.

**Complex Debt Profile:** The city's direct debt is low, and its pension system is well-funded; however, variable-rate and other short-term debt represent a combined 40% of total debt, exposing the city to liquidity and market risk.

**General Fund Obligations:** The COPs and pension obligation bonds are rated one notch below the GO bonds, as they are payable solely from any legally available funds. The 'A+' rating on the 2006 lease revenue COPs further reflects the non-essential nature of the specific leased assets.

## Rating History — Lease Revenue Bonds

| Rating | Action | Outlook/ Watch | Date |
|---|---|---|---|
| AA– | Assigned | Stable | 7/31/12 |

## Rating History — GOs

| Rating | Action | Outlook/ Watch | Date |
|---|---|---|---|
| AA | Affirmed | Stable | 7/31/12 |
| AA | Downgraded | Stable | 4/29/11 |
| AA+ | Revised | Negative | 4/30/10 |
| AA | Affirmed | Negative | 4/29/09 |
| AA | Assigned | Stable | 6/6/05 |

## Rating History — COPs

| Rating | Action | Outlook/ Watch | Date |
|---|---|---|---|
| AA– | Affirmed | Stable | 7/31/12 |
| AA– | Downgraded | Stable | 4/29/11 |
| AA | Revised | Negative | 4/30/10 |
| AA– | Affirmed | Negative | 4/29/09 |
| AA– | Assigned | Stable | 11/3/03 |

## Rating History — POBs

| Rating | Action | Outlook/ Watch | Date |
|---|---|---|---|
| AA– | Affirmed | Stable | 7/31/12 |
| AA– | Downgraded | Stable | 4/29/11 |
| AA | Revised | Negative | 4/30/10 |
| AA- | Affirmed | Negative | 4/29/09 |
| AA- | Assigned | Stable | 6/6/05 |

## Rating History — Lease Revenue COPs

| Rating | Action | Outlook/ Watch | Date |
|---|---|---|---|
| A+ | Affirmed | Stable | 7/31/12 |
| A+ | Downgraded | Stable | 4/29/11 |
| AA– | Revised | Negative | 4/30/10 |
| A+ | Affirmed | Negative | 4/29/09 |
| A+ | Assigned | Stable | 7/27/06 |

### Related Criteria

U.S. Local Government Tax-Supported Rating Criteria, Aug. 15, 2011

Tax-Supported Rating Criteria, Aug. 15, 2011

## Credit Profile

### Weak Economy

The city of Riverside, the Riverside County ('AA–' Fitch implied GO rating) seat, is located in the west portion of the county, about 60 miles east of downtown Los Angeles. After several years of declining employment and a hard hit housing market, the city's economy has started to improve. Unemployment declined to 11.9% as of May 2012, down from 13.2% year over year, as employment increased faster than the labor force. The city benefits from sizable government and education sectors, including county operations and four colleges and universities.

Per capita income is well below state and national levels, possibly due to a large student population, estimated at about 52,000, or one-sixth of the city's total population. Median household income is more on par with both state and U.S. averages. The city's assessed value (AV) continued to grow through fiscal 2009 due to rising property values and new commercial and residential development but declined 7.7% in fiscal 2010 and 2.6% in fiscal 2011 reflecting home price declines of more than 50% from their peak. However, signs of stabilization are reflected in a slight increase in AV of 1.2% in fiscal 2012; management conservatively expects flat AV for fiscal 2013.

Riverside has maintained a sound financial position over the past five years despite revenue declines. The city entered the recession with a good financial cushion. After using some fund balance for planned capital spending and several years of operating deficits, the city posted surpluses after transfers in fiscal years 2010 and 2011 of $1.8 million (or 0.8% of spending) and $2.8 million (1.1%), respectively. At year-end fiscal 2011, the city's unrestricted fund balance (consisting of the assigned, unassigned, and restricted as per GASB 54) was a strong 21.4%. Management projects about a $1.0 million reduction in reserves in fiscal 2012, though the city has historically outperformed projections.

Management adopted a balanced fiscal 2013 budget in part by holding salaries flat and achieving savings from recent pension reform. In addition, the budget projects a net negative impact of $2.0 million from the dissolution of redevelopment agencies. Revenues increase slightly overall due primarily to an 8.2% increase in sales tax revenues based on recent performance. Fitch Ratings believes this sales tax estimate is aggressive despite its consistency with a consultant's report.

The budget is balanced using one-time revenues of $3.0 million from the sale of delinquent property tax receivables and approximately $1.0 million of reserves, although management expects additional expenditure cuts or revenues will mitigate their use. The budget does not include the approximately $2.2 million in fiscal 2013 debt service savings expected from the refunding. The city will use most of the present value savings from the refunding in fiscal 2013 to fund a one-time capital project. Finally, the budget assumes the general fund will pay an increased share of debt service (about $3 million) on 2008 COPs, which had been paid for by park fund fees whose revenues have declined due to the economy.

The city has exceeded its unreserved general fund balance policy, which consists of maintenance of at least 15% of the following year's spending, for the past decade. Budget adjustments to date have not been severe and include nonpublic-safety hiring freezes, expenditure increase roll backs, salary and benefit freezes, and pension and benefit reforms. The recently instituted pension reforms fully take effect in fiscal 2013. Changes include increased employee contributions, pension benefit formula changes, and increased retirement age for new employees. It also instituted benefit reform by eliminating deferred contributions for certain employees.

The general fund has begun to absorb the impact from the dissolution of the city's redevelopment agency as per state law (Assembly Bill 1x26). The general fund's $4 million in increased costs in fiscal 2013 are offset with $2 million in increased property taxes the city receives as a result of the agency's dissolution. Management believes the potential impact on the general fund if all outstanding items are resolved unfavorably to the city is $15 million and that the city council would amortize the obligations over time. A portion of general fund debt service had been paid for by the redevelopment agency prior to dissolution and has been approved as an enforceable obligation.

## Revenue Diversity

Revenues are diverse, with sales and property taxes each comprising 21.0% of general fund revenues, utility users tax making up 12.5%, and a utility transfer of 11.5% of gross utility revenues comprising 18.0% (water revenue bonds rated 'AA+' and electric revenue bonds rated 'AA–' by Fitch). Sales taxes increased 11.4% in fiscal 2011, largely due to the recovery of auto dealerships and lumber yards hard hit during the recession, and are estimated to have increased an additional 6.9% in fiscal 2012.

## Complex Debt Profile

The city's total burden is moderate. Debt service is 10.9% of fiscal 2011 general and debt service fund spending. About 40.0% of its total debt is variable rate, which exposes it to moderate counterparty and termination risk ($14.8 million negative mark to market as of June 30, 2011). Amortization of debt is about average, with 51% of principal retired within 10 years.

### Debt Statistics

($000)

| | |
|---|---|
| This Issue | 39,295 |
| Outstanding Direct Debt – Net of Refunding | 341,858 |
| **Total Net Direct Debt** | **381,153** |
| Overlapping Debt | 567,839 |
| **Total Overall Debt** | **948,992** |
| | |
| **Debt Ratios** | |
| Net Direct Debt Per Capita ($)[a] | 1,227 |
| As % of Taxable Assessed Value[b] | 2.3 |
| Overall Debt Per Capita ($)[a] | 3,055 |
| As % of Taxable Assessed Value[b] | 5.7 |

[a]Population: 310,651 (2012). [b]Taxable assessed value: $16,594,033,398 (2012). Note: Numbers may not add due to rounding.

The city participates in CalPERS and its miscellaneous, and public safety pensions are well funded at 82.0% and 84.0%, respectively, using Fitch's adjusted discount rate of 7.0%. The city routinely funds its pension annual required contributions, which totaled a moderate 9.5% of general fund spending in fiscal year 2011. Fitch expects the pension annually required contributions to stabilize in the long term due to the pension reform, but more immediate savings will be with new employees paying their share of pension premiums. The city's funds other post-employment benefits (OPEB) on a pay-as-you-go basis equal to $1.7 million in fiscal year 2011. Concurrent with the pension reforms, the city ceased making OPEB contributions for all but the police bargaining units.

## General Fund Financial Summary

($000, Audited Fiscal Years Ended June 30)

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| Property Tax Revenue | 44,163 | 50,432 | 50,936 | 45,540 | 43,537 |
| Sales Tax Revenue | 57,233 | 50,526 | 41,881 | 39,645 | 44,157 |
| Other Tax Revenue | 31,994 | 35,033 | 34,021 | 33,970 | 35,812 |
| Total Tax Revenue | 135,390 | 135,991 | 126,838 | 119,299 | 123,505 |
| License and Permits | 7,821 | 7,144 | 6,381 | 6,166 | 6,717 |
| Fines and Forfeits | 2,559 | 4,573 | 4,649 | 4,503 | 5,244 |
| Charges for Services | 11,903 | 11,325 | 9,003 | 9,521 | 10,687 |
| Intergovernmental Revenue | 12,069 | 10,628 | 10,802 | 8,391 | 11,104 |
| Other Revenue | 13,974 | 21,213 | 13,727 | 8,652 | 13,649 |
| **General Fund Revenue** | **183,716** | **190,874** | **171,400** | **156,532** | **170,906** |
| | | | | | |
| General Government | 32,883 | 14,084 | 8,148 | 8,174 | 9,347 |
| Public Safety | 153,226 | 157,816 | 145,802 | 137,331 | 138,620 |
| Culture and Recreation | 27,090 | 37,219 | 26,646 | 23,182 | 25,360 |
| Capital Outlay | 0 | 0 | 4,836 | 1,609 | 1,617 |
| Debt Service | 17,612 | 17,961 | 14,688 | 46,616 | 44,225 |
| Other Expenditures | 20,760 | 25,908 | 18,452 | 14,987 | 14,587 |
| **General Fund Expenditures** | **251,571** | **252,988** | **218,572** | **231,899** | **233,756** |
| | | | | | |
| **General Fund Surplus** | **(67,855)** | **(62,114)** | **(47,172)** | **(75,367)** | **(62,850)** |
| Transfers In | 32,656 | 33,526 | 50,650 | 45,256 | 121,348 |
| Other Sources | 397 | 45,039 | 30,660 | 34,601 | 32,775 |
| Transfers Out | 1,922 | 0 | 7,776 | 2,679 | 9,539 |
| Other Uses | 0 | 30,000 | 30,200 | 0 | 81 |
| Other Net Adjustments | 0 | 0 | 0 | 0 | 0 |
| Net Transfers and Other | 31,131 | 48,565 | 43,334 | 77,178 | 144,503 |
| **Net Surplus/(Deficit)** | **(36,724)** | **(13,549)** | **(3,838)** | **1,811** | **81,653** |
| | | | | | |
| Total Fund Balance | 94,766 | 81,217 | 77,379 | 79,190 | 160,843 |
| As % of Expenditures, Transfers Out, and Other Uses | 37.4 | 28.7 | 30.2 | 33.8 | 66.1 |
| Unreserved Fund Balance[a] | 44,135 | 45,192 | 35,979 | 38,456 | — |
| As % of Expenditures, Transfers Out, and Other Uses | 17.4 | 16.0 | 14.0 | 16.4 | — |
| Unrestricted Fund Balance[b] | — | — | — | — | 51,948 |
| As % of Expenditures, Transfers Out, and Other Uses | — | — | — | — | 21.3 |

[a]Pre GASB54 [b]Reflects GASB 54 classifications: sum of committed, assigned, and unassigned. Note: Numbers may not add due to rounding.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.