

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](#)

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.

Analysts

Shannon Groff
+1 415 732-5628
shannon.groff@fitchratings.com

Alan Gibson
+1 415 732-7577
alan.gibson@fitchratings.com

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.

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.

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.	

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

^aPre GASB54 ^bReflects 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.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

Copyright © 2012 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries. One State Street Plaza, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion is based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.