STANDARD & POOR'S
RATINGS SERVICES

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Summary:

Riverside, California; Appropriations; General Obligation

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Credit Profile		
US$40.0 mil lse rev rfdg bnds ser 2012A due 11/01/2033		
Long Term Rating	A+/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'A+' rating to Riverside, Calif.'s lease revenue refunding bonds, series 2012A. Standard & Poor's also affirmed its 'AA-' underlying rating (SPUR) on the city's general obligation (GO) bonds; its 'A+' rating and SPUR on the city's series 2003, 2006, and 2010 certificates of participation (COPs); and its 'A+' SPUR on the city's pension obligation bonds (POBs). The outlook is stable.

The ratings reflect our view of the city's:

- Role as the economic center of the Inland Empire, with a diverse employment base centered on government, education, and services in the Riverside-San Bernardino MSA (although the city has just started to experience a slight rebound from a pronounced economic contraction, particularly in the housing market);
- Consistently strong unreserved general fund balance levels; and
- Strong financial management practices

Partially offsetting the preceding factors, in our view, are the city's elevated unemployment rates, which may dampen prospects for full economic recovery and tax revenue growth.

The rating on the COPs is one notch lower than the GO rating to reflect the appropriation risk associated with appropriation-backed obligations. The city's COPs have an interest in the city's base rental payments. The city has covenanted to budget and appropriate rental payments and lease payments. We understand that the series 2012A bonds will refund the series 2003 COPs, for which the city will continue to lease the city hall complex and Lincoln Avenue police station. The appraised value of the city hall complex is $40 million, according to the city's property appraisal dated Dec. 15, 2011. The insured value of the police patrol facility is $7.2 million, according to the city. The city covenants to budget and appropriate annual base rental payments. As provided in the lease, base rental payments are triple net, without right of set-offs, and the city is responsible for the maintenance, taxes, and utilities of the leased property. Base rental payments may be abated in the event of damage to, or the destruction of, the assets. To mitigate the risk of abatement in such a case, the city has covenanted to maintain insurance coverage equal to at least 2x maximum annual base rental payments and property insurance for certain causes of loss (equal to greater of 100% outstanding aggregate principal amount of the bonds or replacement cost). In addition, the buildings adhere to our seismic risk model under our criteria.

Unlimited ad valorem taxes levied on taxable property within the city secure the GO bonds. The Riverside County

Board of Supervisors has the power and obligation to levy these taxes at the city's request for the bonds' repayment. The county is required to deposit such taxes, when collected, into the bonds' debt service fund. The POBs are secured by any available sources of the city's general fund revenues.

Riverside has a population of approximately 308,511 and is the seat of Riverside County. The city is located approximately 60 miles east of downtown Los Angeles and 90 miles north of San Diego. Local industry consists mostly of government and services related to construction, manufacturing, and the production of goods. Monthly unemployment rates, on a year-over-year basis, have experienced slow but steady improvement in 2011 and through May 2012 due to employment growth. Although still elevated, the May 2012 unemployment rate was 11.9% (preliminary, not seasonally adjusted), down from 13.2% a year earlier, according to the Bureau of Labor Statistics. Median household income as of 2010 was good, in our view, at 104% of the U.S. average; per capita income, however, was 84% of the nation.

Due to the city's relatively more established and more built-out nature, management reported that new housing construction during the housing boom was moderate compared to other inland regions of California. However, in our view the city experienced robust property appreciation; assessed value (AV) doubled between fiscal 2002 to its peak in fiscal 2009. With the economic downturn, this growth has slowed significantly. Fiscal 2012 AV dipped 5%, the third consecutive year of decline, to $22.1 billion, or $72,586 per capita, which we still consider strong. The city reported that estimated fiscal 2013 AV is $22.5 billion.

The city's general fund performance is very strong, in our view, as demonstrated by very strong reserves. The unassigned general fund balance (GASB 54) for fiscal 2011 was $36.4 million, or 16% of expenditures, on par with the prior year's unreserved general fund balance. Improved sales tax revenue performance contributed to a 9% increase in general fund revenue. The fiscal 2013 budget assumes 4.4% growth in core general fund tax revenue (sales and use, property, and utility users tax) and 3.3% growth in total general fund revenue. The fiscal 2013 budget also incorporates the full impact of the redevelopment dissolution, which, in our view, is minimal to the general fund, at $4 million annually. In addition, we understand that collective bargaining agreements were settled with no compensation or benefit increases for 2013 and 2014, except with the Police Administrators Association, which represents just 24 employees. Although the fiscal 2013 general fund budget currently reflects about a $1 million drawdown in the reserve from projected fiscal 2012 levels, management expects that general fund reserves will be slightly higher than its policy of at least 15% of expenditure budget for fiscal 2012 and fiscal 2013.

Riverside's financial management is considered "strong" under Standard & Poor's financial management assessment (FMA) methodology. An FMA of "strong" indicates that, in our view, practices are strong, well embedded, and likely sustainable.

In our view, debt ratios are moderate, at 5.9% of market value and $4,264 per capita. The city's series 2008 COPs ('A/A-1' rating based on the bank facility provided by Bank of America N.A.) were issued in weekly variable-rate mode, hedged with a swap. According to the notes to the fiscal 2011 comprehensive annual financial report, $125.4 million was outstanding as of June 30, 2011 with a negative fair value of $14.8 million (amount the city would owe in the event of a termination). Under the swap agreement, the city pays a fixed 3.36% and receives 63% of LIBOR plus 7 basis points.

We understand that the city also entered into a lease agreement in July 2012 with Compass Mortgage Corporation to finance the expansion of and renovations to its convention center. The lease agreement currently provides for draws by the city for up to a total of $41.65 million with a lease term ending April 1, 2034. The interest rate is variable based on 65.01% one-month LIBOR plus 1.50% for each interest period, which commences on the first day of a calendar month. We believe the draft lease includes standard default and remedy provisions and the lessee shall not have the right to accelerate rental payments not in default. However, events of default include any event of default of the city's obligations under the swap agreement, which includes cross default for any city obligation payable from the general fund of $10 million or more. In addition, under the default remedies, if the lessee chooses to terminate the lease the interest rate on all past due payments would be rise to the no more than 12% annually. At the same time, the city will enter into a swap agreement with BBVA Compass with a notional amount of $41.65 million and April 1, 2034 termination date. The city will pay a fixed rate of 3.24% and receive a rate of 65.01% one-month LIBOR plus 150 basis points. After an event of default BBVA has the right to terminate the agreement. The termination payment would be calculated based on market quotation.

The city participates in the California Public Employees' Retirement system, a multiple-employer public employee retirement system. The city also contributes to two single-employer defined retiree benefit health care plans: the implied subsidy plan and a stipend plan. According to management, the implied subsidy plan allows retirees to purchase health care provided to active employees. Through the stipend plan, the city is contractually required to set aside $100 per paycheck for fire and safety employees and a quarter of 1% of pay per pay period for miscellaneous employees. Fiscal 2011 pension and other postretirement employee benefits payments represented 6.9% of governmental funds expenditures.

Outlook

The stable outlook reflects our anticipation that the city will maintain its contingency reserve balances given management's history of reducing expenditures in line with declines in general fund revenues, and that the city's utility funds will likely continue to provide strong operational support. The outlook also reflects our anticipation that the city's position as the economic center of the Inland Empire (including its diverse local economic base and stable top employers), strong financial management practices, and reserve policies will continue to provide a cushion for economic contingencies such as a decline in revenues or other unexpected expenditures.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

Ratings Detail (As Of July 31, 2012)		
Riverside certs of part ser 2003 (AMBAC)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Ratings Detail (As Of July 31, 2012) (cont.)		
Riverside Election of 2003 GO		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Riverside POBs series 2005A (MBIA) (National)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Riverside COP		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Long Term Rating	A+/Stable	Affirmed

Many issues are enhanced by bond insurance.

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