S&P Global
Ratings

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Summary:

Richmond, California
Richmond Joint Powers Financing Authority; Appropriations; General Obligation

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Table Of Contents

Rationale

Outlook

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Credit Profile		
US$72.395 mil lse rev rfdg bnds (Richmond) (Civic Center Project) ser 2019B due 11/01/2037		
Long Term Rating	A+/Stable	New
US$21.01 mil lse rev rfdg bnds (Richmond) (Point Potero) ser 2019A due 05/01/2024		
Long Term Rating	A+/Stable	New
Richmond ICR		
Long Term Rating	AA-/Stable	Upgraded
Richmond Jt Pwrs Fin Auth, California		
Richmond, California		
Richmond Jt Pwrs Fin Auth APPROP		
Long Term Rating	A+/Stable	Upgraded
Richmond Jt Pwrs Fin Auth APPROP		
Long Term Rating	A+/Stable	Upgraded
Richmond Jt Pwrs Fin Auth APPROP (ASSURED GTY)		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Richmond Jt Pwrs Fin Auth (Richmond) lse rev bnds (Richmond)		
Long Term Rating	A+/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings raised its issuer credit rating (ICR) on Richmond, Calif., three notches to 'AA-' from 'A-'. At the same time, S&P Global Ratings raised its long-term rating and underlying rating (SPUR) on the Richmond Joint Powers Financing Authority's series 2009 and 2016 lease revenue bonds to 'A+' from 'BBB+'.

S&P Global Ratings also assigned its 'A+' long-term rating to the Richmond Joint Powers Financing Authority, Calif.'s lease revenue refunding bonds, series 2019A and series 2019B issued on behalf of the city of Richmond.

The outlook on all ratings is stable.

The upgrade is based on our view of the city's restored budgetary performance, with general fund surpluses reported in each of the past four fiscal years coupled with the adoption of several formalized policies and practices that has strengthened our view of the city's financial management. The restored budgetary performance was due to Richmond's implementation of cost-control measures during the past several years including staff reductions and cost-sharing measures related to health care expenditures. The local economy has also recovered and expanded during the past

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several years, resulting in growth in property tax and sales tax revenues. Due to these factors, and a half-cent sales tax increase (Measure U) that was passed in 2014, the city returned to balanced operations. As a result, we no longer consider management to be weak and we no longer apply the management rating cap of 'A' for the existence of a structural imbalance within the past three years on the final rating under our Local Government General Obligation Ratings criteria. We anticipate that Richmond will maintain its general fund reserves at a level we consider strong, or above 8% as a percent of operating expenditures at a minimum.

The ICR reflects our view of the city's overall creditworthiness, including its capacity and willingness to meet financial commitments as they come due.

The city's lease revenue bonds, including the series 2019A and 2019B bonds, are secured by base rental payments made by the city as lessee, to the authority, as lessor. We rate these obligations one notch lower than the city's general creditworthiness to account for the appropriation risk associated with the lease payments. The series 2019A lease revenue bonds are also secured by net revenues of the Port of Richmond. However, the rating on the 2019A lease revenue bonds reflects the lease pledge of the city's general fund, which we view as having stronger credit quality.

The city has pledged its best efforts to seek appropriations annually out of its operating budget, and has considered the affordability of the lease payments in its long-term plans. In our view, the lease features and terms are standard without any unusual risks regarding timely payment of debt. Under the facility lease agreements, Richmond can abate lease payments in the event of damage or destruction to the leased property. To mitigate the risk of abatement in such a case, the city has agreed to maintain at least two years of lease interruption insurance as well as casualty insurance equal to the full replacement cost of the damages. We understand the city intends to use city hall and council chambers/city offices as the leased assets for the series 2019B lease revenue bonds. The city will use the Point Potrero Marine Terminal Wharf as its leased asset for the series 2019A lease revenue bonds. We have assessed the seismic risk of these buildings and confirmed that these leased assets are consistent with our seismic-risk assessment during the life of the bonds. We understand the series 2019A bond proceeds will be used to redeem the city's series 2009A lease revenue bonds related to the Point Potrero project. The series 2019B bond proceeds will be used to defease the city's series 2009 lease revenue bonds related to its refunding and civic center project.

The ICR reflects our view of the Richmond's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and an operating surplus at the total governmental fund level in fiscal 2018;
- Strong budgetary flexibility, with an available fund balance in fiscal 2018 of 10.8% of operating expenditures;
- Very strong liquidity, with total government available cash at 38.8% of total governmental fund expenditures and 4.1x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 9.5% of expenditures and net direct debt that is 188.2% of total governmental fund revenue, as well as a large pension and other postemployment

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benefit (OPEB) obligation; and

- Strong institutional framework score.

Strong economy

We consider Richmond's economy strong. The city, with an estimated population of 110,967, is located in Contra Costa County in the San Francisco-Oakland-Hayward, Calif., MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 88.9% of the national level and per capita market value of $145,386. Overall, the city's market value grew by 8.0% over the past year to $16.1 billion in 2019. The county unemployment rate was 3.8% in 2017.

The local economy continues to strengthen, reflected by growth in assessed value (AV) in each of the past five fiscal years. Most recently, the tax base grew by 8% in fiscal 2019, which reflects the continued commercial and residential developments within the city. City management indicates the ongoing property development projects will likely result in continued growth in citywide AV during the next several years. The tax base is still moderately concentrated, as the top 10 taxpayers account for about 26% of total AV in fiscal 2019. Of those, the top taxpayer (Chevron USA) dominates the list, as it accounted for $3.3 billion, or about 22% of the city's total tax base.

We anticipate continued AV growth at or near the historical trend. Overall, we forecast stable-to-positive growth for the western U.S. Pacific states as continued home price appreciation, continued strength in the region's housing starts, and vibrant regional economies have helped boost local government tax receipts throughout much of the region, including the AV results for Richmond. As a result, we expect the broader macroeconomic forces to support our view and expectation of a stable-to-positive AV result in the near term. For additional information, please see "Credit Conditions: Summer Should Be Smooth Sailing For U.S. State And Local Governments, But There Could Be Waves Ahead," published April 30, 2019, on RatingsDirect.

Strong management

We view the city's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

We have revised the city's FMA score to good from standard due to management's implementation of several policies and practices during the past several years. The city now maintains a practice of presenting the budget and budget-to-actuals to city council quarterly. It uses historical trends to project revenues and expenditures and assumptions used are conservative and more realistic compared with previous assumptions used in fiscal 2014 and earlier. Richmond now maintains a five-year financial forecast for its general fund operations that it updates once a year and presents to city council. Other highlights include presentations of the city's investment holdings to the council monthly and the maintenance of a five-year rolling capital plan with most funding identified for all projects. The city has an investment, debt management, and swap policy. It also follows a policy to keep general fund reserves at 15% of expenditures. Management recently revised this target up from 7%, reflecting city council's desire to keep reserves at higher levels. While the city is not currently in compliance with the 15% reserve policy, management indicates it plans on selling a piece of property currently owned by the Port of Richmond and will transfer those proceeds into the general fund to repay an existing receivable. The city indicates this will bring general fund reserves above 15% and will

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be in compliance with its reserve policy.

Strong budgetary performance

Richmond's budgetary performance is strong in our opinion. The city had balanced operating results in the general fund of 0.1% of expenditures, and surplus results across all governmental funds of 4.3% in fiscal 2018.

The city reported balanced operations with modest surpluses in the general fund in each of the past four fiscal years. This reflects a substantial improvement from operating results in fiscal 2014 and earlier, which reflected a structural imbalance with several general fund deficits reported in those years. However, during the past several years, the city has implemented cost-control measures that include staff reductions and cost-sharing measures related to health care expenditures. In addition, the local economy has recovered and expanded during this time, which has resulted in growth in property tax and sales tax revenues. With the adoption of more formalized management policies and practices, Richmond has eliminated its structural deficit, in our view, and restored its budgetary performance to strong. The city has drafted a balanced budget for fiscal 2020 and expects it will maintain balanced operations during the next several years.

Strong budgetary flexibility

Richmond's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2018 of 10.8% of operating expenditures, or $17.7 million.

The city has maintained its available general fund reserve at strong levels during the past few years. Considering the growth in its major revenue streams and sufficient management of its major expenditures, we believe Richmond will be able to maintain strong reserves, at a minimum, during the next two years. City management indicated it also plans on selling property, which will generate additional funds that will be deposited in the general fund. Management projects this will bring general fund reserves closer to 15% of expenditures, which we consider very strong.

Very strong liquidity

In our opinion, Richmond's liquidity is very strong, with total government available cash at 38.8% of total governmental fund expenditures and 4.1x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary.

We expect Richmond's liquidity will remain very strong during the next two years. The city maintains two interest rate swap agreements related to its auction rate POBs, series 2005B-1 and series 2005 B-2. The interest rate swap related to the 2005B-1 bonds became effective Aug. 1, 2013 while the 2005B-2 swap does not become effective until Aug. 1, 2023, in the same amount as the bonds' principal balances outstanding on that date. The combination of the variable-rate bonds and a floating swap rate will create synthetic fixed-rate debt for the city, where it pays fixed rate and receives variable-rate interest based on 100% of one-month LIBOR. The counterparty for both swaps is Royal Bank of Canada (AA-/Stable/A-1+). A termination event occurs only when S&P Global Ratings' ICR on the city falls below 'BBB' or if S&P Global Ratings ceases to rate the 2005 POBs. As a result, we believe the termination risk is remote for these interest rate swaps, given the current rating level on the city.

Very weak debt and contingent liability profile

In our view, Richmond's debt and contingent liability profile is very weak. Total governmental fund debt service is

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9.5% of total governmental fund expenditures, and net direct debt is 188.2% of total governmental fund revenue.

The city does not have plans to issue additional long-term debt during the next several years and we do not expect its debt levels to increase during that time.

In our opinion, the city's pension costs are large; they have been growing during the past several years. The city participates in CalPERS through its safety and miscellaneous plans. It made its full annual required pension contribution to both plans in 2019. The funded ratio of the largest pension plan, the safety plan, is 69.0%. Based on the fiscal 2018 audit, Richmond's combined required pension and actual OPEB contributions were 13.7% of total governmental fund expenditures, which we consider high. Of that amount, 10.7% represented required contributions to pension obligations, and 3.0% represented OPEB payments. However, the city receives property tax override revenues (PTOR), which may be used only to pay certain retirement costs. We believe PTOR mitigates some of the rising pension costs that Richmond currently faces.

Strong institutional framework

The institutional framework score for California municipalities required to submit a federal single audit is strong.

Outlook

The stable outlook reflects our view of Richmond's strong local economy and growth in the city's major revenue streams, both property tax and sales tax revenues, which have helped the city maintain its strong financial profile. The outlook also reflects our expectation that reserve levels will remain strong and in compliance with the city's reserve policy during the next two years, and that the city will manage its debt and ongoing expenditures sufficiently to avoid any future structural imbalances. We do not expect to change the rating during the next two years.

Upside scenario

Should the local economy continue to strengthen, reflecting higher income and wealth metrics, if the city's pension costs represent a smaller portion of the city's budget, and if the city keeps reserves at very strong levels in the current year and projected for the next few years, we could raise the rating.

Downside scenario

Should Richmond's financial performance deteriorate to the point of resulting in structural imbalance either because of an unexpected decline in revenues or because the city is unable to manage its debt and pension-related costs, we could lower the rating.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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