



## Rating Action: Moody's upgrades Richmond, CA's issuer rating and POBs to A3; outlook is stable

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New York, February 17, 2023 – Moody's Investors Service has upgraded the City of Richmond, CA's issuer rating to A3 from Baa2 and pension obligation bond rating to A3 from Baa3. This action concludes a review that was initiated on November 3, 2022 in conjunction with the release of the US Cities and Counties Methodology. The city has about \$236 million in outstanding bond debt. The outlook was revised to stable from ratings under review.

### RATINGS RATIONALE

The upgrade of the issuer rating to A3 reflects the city's strengthened economic and financial performance, as viewed through our new methodology. Specifically, the city is benefitting from its location in the vibrant San Francisco Bay Area economy, which supports the average resident incomes and full value per capita that is above average due to the large commercial component in the tax base. This includes taxpayer concentration, in particular from an oil refinery owned by Chevron Corporation (Aa2 stable), which is the largest taxpayer. Notably, there is ongoing residential and commercial development that is buoyed the local economy and contributing to tax base growth.

The upgrade also reflects the significant improvement in the city's financial performance, albeit owing in part to receipt of one-time pandemic funding held outside the general fund that is yet to be expended. While the general fund has a large long-term receivable from its port enterprise, government-wide, the city benefits from the strong liquidity in its wastewater enterprise. While reserves and liquidity have improved significantly in recent years, the city's five-year projections show that expenditures will outpace revenues.

The A3 rating incorporates the city's strengthened financial policies and practices that supported improved financial performance. However, management turnover has contributed to inconsistent compliance with some of those policies. A notable weakness remains the administration of the housing authority, which has not completed a financial audit in four fiscal years, resulting in a lack of transparency regarding the potential effect on the city's finances. Additionally, there is remaining uncertainty regarding the outcome of significant litigation filed against the city in 2022. The A3 rating also incorporates the city's very high long-term liabilities ratio (comprising leverage from debt and unfunded pension and OPEB liabilities) and elevated fixed costs, significant given constraints on revenue growth and operating cost pressures.

The upgrade of the pension obligation bond (POB) rating to A3 reflects the change in methodology related to instrument-specific considerations. The absence of a distinction between the POB rating and the issuer rating reflects the unconditional legal obligation of the city to pay debt service on the bonds from all available financial resources, which includes the city's pension override tax revenues.

### RATING OUTLOOK

The stable outlook reflects our view the city's financial position will moderate after spending of one-time revenues, but remain consistent with the rating level. The city's ability to match ongoing expenditures and revenues will be key to future reviews of its credit profile.

### FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Improved compliance with adopted policies and reduced management turnover

- Proactive cost-cutting and revenue-raising measures to sustain structural balance
- Material reduction in leverage

## FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Sustained deficit spending
- Material judgment against the city in current litigation

## LEGAL SECURITY

The city's POBs are an unconditional legal obligation of the city, payable from all available financial resources, including the city's pension override tax revenues.

## PROFILE

Richmond encompasses 34 square miles on the western shore of Contra Costa County (Aa1 stable), with 32 miles of shoreline on San Francisco Bay. Richmond is a charter city, providing a full range of municipal services to its approximately 115,000 residents. It operates a housing authority, sewer system, storm water system, deep water port and marina as enterprises.

## METHODOLOGY

The principal methodology used in these ratings was US Cities and Counties Methodology published in November 2022 and available at <https://ratings.moodys.com/api/mc-documents/386953>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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