

# RatingsDirect®

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## Summary:

# Santa Clarita, California; Appropriations; General Obligation

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**Summary:**

# Santa Clarita, California; Appropriations; General Obligation

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| Santa Clarita Issuer Credit Rating |            |          |
| Long Term Rating                   | AAA/Stable | Upgraded |

**Rationale**

Standard & Poor's Ratings Services raised its issuer credit rating (ICR) on Santa Clarita, Calif. one notch to 'AAA' from 'AA+'.

Standard & Poor's also raised its rating on the city's certificates of participation (COPs) and lease revenue bonds one notch to 'AA+' from 'AA'. The outlooks on all ratings are stable.

The upgrade on the ICR reflects our assessment of the city's proactive budgetary management, allowing it to maintain stable operations and improved available general fund reserves despite challenging economic circumstances.

The ICR reflects our view of the city's general creditworthiness, including its:

- Primarily residential property tax base -- The city's residents benefit from easy access to the broad and diverse Los Angeles economy;
- Strong-to-very-strong income;
- Good managerial policies and procedures;
- Low funding interdependencies with the federal government; and
- Low-to-moderate overall debt with no additional debt plans.

Lease payments made by the city, as lessee, to Santa Clarita Public Financing Authority, as lessor, for the use of various leased facilities secure the COPs and lease revenue bonds. The city has agreed to budget and appropriate lease payments during the obligations' life.

Operations are, in our view, stable with the general fund adding to reserves during each of the past five audited fiscal years. In addition, officials balanced the fiscal 2013 budget without appropriating general fund reserves. Although audited information is not yet available, we understand the city used an estimated \$3 million of accumulated general fund reserves in fiscal 2012 to fund various one-time items, including capital replacement, a trust fund for other postemployment benefits (OPEB), and self-insurance. Although the original fiscal 2012 budget reflected a larger use of operating reserves, officials believe better-than-budgeted revenue and conservative expenditure projections allowed the city to fund these various items while leveraging just \$3 million of reserves. Despite the expected reserve use, officials expect to retain approximately \$44 million of available general fund reserves, or, in our view, a still-very-strong 60% of estimated expenditures.

Santa Clarita closed fiscal 2011 on June 30 with a \$5.9 million operating surplus that increased available -- defined as assigned plus unassigned general fund reserves under Governmental Accounting Standards Board Statement No. 54 -- general fund reserves to \$47.5 million, or, in our view, a very strong 70% of operating expenditures. We understand available reserves exclude \$12 million of general fund reserves committed to fund OPEB. Sales and property taxes are the leading revenue sources, typically generating 35% and 30%, respectively, of general fund revenue.

Officials estimate the dissolution of redevelopment agencies (RDA) in California, as required by state law and affirmed by a California Supreme Court decision, will have only a minimal effect on the city's general fund operations since it used the former RDA mostly for capital projects and since the former RDA had little administrative costs. In addition, \$12 million of general fund advances to the RDA are nonspendable reserves on the general fund balance sheet; therefore, they are not included in the city's calculation of available general fund reserves. Officials also report that in July 2012, Santa Clarita made its \$540,000 "true up" payment related to the now dissolved RDA.

Standard & Poor's deems Santa Clarita's financial management practices "good" under its Financial Management Assessment methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Santa Clarita, with an estimated 167,000 residents, is a predominantly bedroom community 35 miles northwest of downtown Los Angeles. Following years of significant growth, the city's population and assessed valuation trends have stabilized since the economy has slowed over the past several years. City residents benefit from direct access to the broad and diverse Los Angeles economy and employment center, evidenced by, what we consider, above-average income and below-average unemployment. Median household and per capita effective buying incomes are, in our view, a very strong 156% and a strong 127%, respectively, of national levels. After peaking at 7.8% in 2010, unemployment has remained below state and national rates; it was 6.8% through June 2012. The diverse property tax base has stabilized recently, fluctuating between \$21 billion and \$22 billion, or an estimated \$126,391 per capita, a figure we consider extremely strong.

Overall debt is, in our view, a low 2.6% of market value, or a more-moderate \$3,294 per capita. Debt service carrying charges are, in our view, low, typically accounting for between 5% and 8% of governmental expenditures, less capital outlay. We understand the city does not currently have any additional debt plans.

The city contributes to the California Public Employees' Retirement System, and it has contributed 100% of the annual required contributions in each of the past three audited fiscal years. In fiscal 2011, the \$4.9 million contribution equaled 3.6% of governmental expenditures less capital outlays. The city also provides OPEB to its retirees. We understand the city addresses these costs through pay-as-you-go financing; in fiscal 2011, it contributed \$384,000, or 7.6% of the annual OPEB cost. As of July 1, 2011, the most recent actuarial valuation date, the \$41.4 million actuarial accrued OPEB liability was 0% funded; although not set aside in a separate trust account, the city maintained \$12.3 million of general fund reserves committed for OPEB at fiscal year-end 2011.

## Outlook

The stable outlook reflects Standard & Poor's opinion of the city's proactive budgeting approach and ability to maintain consistent operations, supported by very strong available general fund reserves. Although we understand the city leveraged general fund reserves for various one-time items in fiscal 2012, we do not expect to change the rating again over the outlook's two-year period due to the city's ability to maintain structurally balanced operations while preserving, what we consider, its very strong available general fund reserves. The city's ties to the greater Los Angeles economy and, what we regard as, its good financial management practices provide additional rating stability.

## Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011

### Ratings Detail (As Of September 6, 2012)

#### Santa Clarita certs of part (Open Space & Parkland Acquis Prog) ser 2007

|                          |                  |          |
|--------------------------|------------------|----------|
| <i>Unenhanced Rating</i> | AA+(SPUR)/Stable | Upgraded |
|--------------------------|------------------|----------|

#### Santa Clarita lse rev bnds (Golden Vy Road)

|                          |                  |          |
|--------------------------|------------------|----------|
| <i>Unenhanced Rating</i> | AA+(SPUR)/Stable | Upgraded |
|--------------------------|------------------|----------|

#### Santa Clarita rfdg certs of part ser 2005

|                          |                  |          |
|--------------------------|------------------|----------|
| <i>Unenhanced Rating</i> | AA+(SPUR)/Stable | Upgraded |
|--------------------------|------------------|----------|

Many issues are enhanced by bond insurance.

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