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Summary:

Moreno Valley Public Financing Authority, California
Moreno Valley; Appropriations

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Credit Profile		
US$24.21 mil lse rev rfdg bnds (Moreno Vy) ser 2014 due 11/01/2035		
Long Term Rating	A+/Stable	New
Moreno Vy Pub Fing Auth, California		
Moreno Vy, California		
Moreno Vy Pub Fing Auth (Moreno Vy) lse rev rfdg bnds (Moreno Vy) ser 2013 due 11/01/2022		
Long Term Rating	A+/Stable	Upgraded
Moreno Vy Pub Fing Auth lse rev ser 2007		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) to 'A+' from 'A' on Moreno Valley Public Financing Authority, Calif.'s existing lease revenue bonds, issued for Moreno Valley, Calif., based on the city's improving financial performance. At the same time, Standard & Poor's assigned its 'A+' long-term rating to the city's series 2014 lease revenue refunding bonds. The outlook is stable.

The series 2014 lease revenue refunding bonds are payable from lease payments made by the city, as lessee, to the Moreno Valley Public Finance Authority, as lessor, for the use of certain assets.

Under the lease agreement, the city has covenanted to budget and appropriate annual payments for use of the leased assets. Payments are triple net, without right of set-offs, and the city is responsible for maintenance, taxes, and utilities. Payments may be abated in the event of damage to, or the destruction of, the leased assets. To mitigate abatement risk in such a case, the city has covenanted to maintain rental-interruption insurance coverage equal to 24 months of maximum annual debt service (MADS). In addition, we evaluated the seismic risk of each leased asset pursuant to our criteria and estimated that none of the leased assets has a greater than 5% probability of incurring 25% damage during the life of the bonds.

The transaction documents do not require the city to fund a debt service reserve. In accordance with our criteria, we do not view the lack of a debt service reserve as a significant credit weakness because appropriation risk is mitigated by payment due dates that occur at least three months after the start of the city's fiscal year (July 1). The leased assets, which are part of a pool of assets that secure the series 2013 and 2014 lease revenue bonds, are a public safety building (a 45,900-square-foot, two-story building), an emergency operations center (8,500-square feet), and city hall (a 56,800-square-foot, two-story building).

We understand that the proceeds from the 2014 lease revenue refunding bonds will refund the Moreno Valley Public Financing Authority's series 2005 lease revenue bonds to achieve interest savings.

The rating reflects our assessment of the following factors:

- Very strong budgetary flexibility with 2014 unaudited reserves at 38% of general fund expenditures;
- Very strong management conditions with strong policies;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Adequate budgetary performance with better than break-even general fund results in fiscal 2014;
- Very weak economy, with high unemployment despite participating in the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA).
- Adequate debt and contingent liability profile.

Very strong budget flexibility

In our opinion, the city's budgetary flexibility remains very strong, with reserves above 30% of expenditures for the past several years, and projected through fiscal 2015. For audited fiscal 2013, reserves were $26 million or 32% of expenditures. The city's fiscal 2014 reserves increased to $28.7 million level or about 38% of expenditures. Although the city budgeted to further draw down reserves in fiscal 2015, budgetary flexibility will remain very strong.

Very strong management

We view the city's management conditions as very strong, with strong financial practices. The city has an outside consultant provide revenue projections for its sales taxes and property taxes. Management provides the board with quarterly reports on its budget to actuals. The city uses comprehensive forecasting and planning processes that stretch five years forward, and the council has adopted a comprehensive five-year capital plan. The city has a council-adopted general fund reserve policy of 15% of expenditures. Although the city has not consistently maintained balanced operations, it did implement a three-year deficit elimination plan starting in fiscal 2011 that brought budgeted expenditures in line with revenues in fiscal 2014.

Very strong liquidity

Supporting the city's finances is liquidity we consider very strong, with total government available cash as a percent of total governmental fund expenditures exceeds 15% and as a percent of debt service that exceeds 120%. We believe the city has exceptional access to external liquidity. It has issued multiple security types frequently in the past 15 years, including revenue bonds and sales tax bonds.

Adequate budgetary performance

The city's budgetary performance stabilized in fiscal 2014, in our view, and was adequate with a surplus of 8% for the general fund and a deficit of 6% for the total governmental funds. The city's 2014 unaudited results mark the first time in at least three fiscal years in which general fund revenues surpass expenditures. The spending deficits in prior years were the result of a recessionary revenue environment and increases in public safety costs. The city implemented a deficit elimination plan (DEP) in fiscal 2011, which included cuts in the number of employees in both safety and non-safety positions, and a reduction in work hours. Public safety expenditures -- police and fire services -- are contracted out to other public entities, and made up about 70% of general fund expenditures in fiscal 2014.

The city has budgeted for an operating deficit in fiscal 2015, both in the general fund and total governmental funds.

However, the city often budgets conservatively in our view, as demonstrated by the city's better-than-budgeted results in each of the past three fiscal years.

The city has a relatively diverse revenue stream, with property, sales, and utility taxes making up about 70% of general fund revenues in fiscal 2014. Property taxes, inclusive of in-lieu property taxes, and utility taxes have remained relatively flat between fiscal 2010 and 2013, but sales taxes have recovered the fastest, having increased by 51% during the same period. All taxes increased in fiscal year 2014 and are projected to modestly increase in fiscal 2015.

Very weak economy

We consider Moreno Valley's economy to be very weak despite having access to the broad and diverse economy of the Riverside-San Bernardino-Ontario MSA. There are signs that the local economy is improving, with county wide unemployment rates on a declining trend and the tax base rebounding from the recession. In 2013, Riverside County's unemployment rate was 10.1%, according to the Bureau of Labor Statistics. Traditionally, county unemployment has tracked higher than the state and the nation. We view this high unemployment rate as an unfavorable credit characteristic. However, the county-wide unemployment rate has been trending below 10% in 2014. The city has per capita incomes that we consider to be very weak, with projected per capita effective buying income at 63% of the nation.

We understand that, consistent with much of the rest of the far eastern portion of the Los Angeles region, the city experienced tremendous growth during the past decade but later saw a significant retrenchment in home values. However, assessed values stabilized in 2012 and increased in both fiscal years 2013 and 2014, reaching $11 billion. Per capita market value for the city was $55,035 for fiscal 2014.

Adequate debt and contingent liability profile

In our opinion, the city's debt and contingent liabilities profile is adequate, with total governmental funds debt service less than 4% of total governmental funds expenditures and with net direct debt at 91% of total governmental funds revenue. We do not expect a debt issuance within the next two years.

The city participates in the California Public Employees' Retirement System to provide pension benefits for employees. It has contributed 100% of the annual required contribution (ARC) in each of the past three years. The combined ARC pension and other postemployment benefits (OPEB) pay-as you-go costs for fiscal 2013 were less than 6% of expenditures, and management doesn't anticipate that these costs will increase substantially in the near term. The city's OPEB liability is 38% funded as of June 30, 2011. In an effort to control costs, management noted that employees hired after 2009 pay the full share of the employee pension contribution and are not eligible for OPEB benefits.

Strong Institutional Framework score

We consider the Institutional Framework score for California cities as strong. See the Institutional Framework score for California.

Outlook

The stable outlook reflects our view that the city's budgetary performance was balanced without the use of reserves in fiscal 2014, and that the city does not anticipate to significantly draw down reserves. The outlook also reflects our view of the city's very strong budgetary flexibility and strong financial management practices. We do not anticipate changing the rating within the two-year outlook period. Although unlikely, if the city were to significantly deplete reserves or lapse into significant structural imbalance, we could take a negative rating action. At this time, a higher rating is precluded by the city's very weak income and wealth indicators.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

Related Research

- Standard & Poor's Earthquake Model, Oct. 25, 2012
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: California Local Governments

Ratings Detail (As Of October 30, 2014)		
Moreno Vy Pub Fing Auth, California		
Moreno Vy, California		
Moreno Vy Pub Fing Auth (Moreno Vy) lse ser 2005		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

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