

Rating Action: Moody's upgrades Richmond, CA issuer rating to Baa3 from Ba1 and POB rating to Ba1 from Ba2; assigns stable outlook

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New York, November 21, 2018 -- Moody's Investors Service has upgraded the city of Richmond, CA's issuer rating to Baa3 from Ba1 and pension obligation bond (POB) rating to Ba1 from Ba2. The city has \$311.8 million in debt outstanding, of which \$6.5 million is Moody's-rated POBs. The outlook is stable.

RATINGS RATIONALE

The upgrades reflect the healthy growth in the city's tax base and economy, demonstrated by recovery and increases in assessed valuation (AV), jobs and new development. The upgrade further reflects material improvement in the city's financial position resulting from increasing revenues from ongoing and new sources and modest expenditures cuts.

The Baa3 issuer rating reflect the city's sizable tax base, which has recovered from recessionary declines and has new developments underway. The taxable assessed valuation (AV) reached \$15.2 billion in fiscal 2019 to eclipse its pre-recession high in fiscal 2010. The tax base has elevated taxpayer concentration, given its largest single taxpayer is Chevron refinery, which comprises 26.9% of total AV. The rating also reflects resident wealth measures that are slightly below average, though the local economy is improving as employment and housing markets have strengthened. The Baa3 incorporates the city's narrow reserves and liquidity, which however have improved since their low point in fiscal 2014. The city has a history of reliance on one-time revenues and operating with a structural deficit, which management has moved to close through voter-approved, ongoing tax increases and modest cost cutting. The rating further incorporates a high level of net direct debt, with a complex structure, escalating debt service and high overlapping debt. Pension and OPEB liabilities are elevated and will pose ongoing budget pressures, consistent with other California cities.

The Ba1 POB rating benefits from the city's pension override tax, which can only be used for pension costs and POB debt service. As a result, we have narrowed the notching between the city's issuer rating and POB rating from two to one, varying from our standard rating notching for a California city POB.

RATING OUTLOOK

The stable outlook reflects our view the city will maintain its current financial position. Management's ability to eliminate reliance on one-time revenues, reduce accumulated deficit balances outside the general fund, and meet its recently increased reserve target will be key to future reviews of the city's credit profile.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Dedication of expected one-time revenues to building reserves
- Improvement of available reserves and cash levels
- Proactive cost-cutting and revenue-raising measures to address increasing fixed costs
- Increase in available pension override property tax revenues for pension costs and POBs

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Decline of assessed valuation
- Deficit spending

LEGAL SECURITY

The city's issuer rating is equivalent to what would be its general obligation (GO) bond rating. In California, GO bonds are secured by a dedicated, voter-approved property tax, which is restricted for use to GO bond debt service and therefore largely insulated from any operational challenges of the municipality. GO bond security is

also enhanced by a statutory lien.

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 (Aa2 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 117,000 residents. It operates a housing authority, sewer system, storm water system, deep water port, and marina as enterprises.

METHODOLOGY

The principal methodology used in the issuer rating was US Local Government General Obligation Debt published in December 2016. The principal methodology used in the pension obligation bond rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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