S&P Global
Ratings

Research

Summary:

Richmond, California; General Obligation

Primary Credit Analyst:
Li Yang, San Francisco (1) 415-371-5024; li.yang@spglobal.com

Secondary Contact:
Brian Phuvan, San Francisco (1) 415-371-5094; brian.phuvan@spglobal.com

Table Of Contents

Summary:

Richmond, California; General Obligation

Credit Profile		
US$47.062 mil pension funding bnds ser 2005 B-1 due 08/01/2023		
Long Term Rating	AA-/Stable	New
US$41.403 mil pension funding bnds ser 2005 B-2 due 08/01/2034		
Long Term Rating	AA-/Stable	New

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to Richmond, Calif.'s series 2005 B-1 and B-2 pension obligation bonds (POBs). The outlook is stable.

The city's pension obligation bonds (POBs) are payable from all legally available funds of the city, including, but not limited to, the city's general fund. We rate the city's POBs on par with its general creditworthiness, based on our view that the city's ability to pay the obligation is closely tied to its operations and the revenue used to secure the POBs is not limited in scope and is not distinct or separate from the city's general fund.

The city's general creditworthiness reflects our view of the following credit factors:

- 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 benefit (OPEB) obligation; and
- Strong institutional framework score.

For more information on the city, please see our report published May 31, 2019, on RatingsDirect.

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 revenue, 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 its 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 revenue 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.