

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's upgrades Richmond, CA's issuer rating to Baa2 from Baa3 and POBs to Baa3 from Ba1; outlook is stable

15 Jun 2022

New York, June 15, 2022 -- Moody's Investors Service has upgraded the City of Richmond, CA's issuer rating to Baa2 from Baa3 and its pension obligation bond (POB) rating to Baa3 from Ba1. The city has \$156 million in POBs outstanding. The outlook remains stable.

RATINGS RATIONALE

The upgrades reflect growth in the city's tax base and economy, as demonstrated by increases in assessed valuation (AV), jobs and new development. The upgrade further reflects improvement in the city's financial position resulting from increased revenue as well as a reduction in deficit balances in special revenue funds. We consider governance to be a driver of this rating action, incorporating the city's improved financial policies and practices. Despite these improvements, governance remains a relative credit weakness.

The Baa2 issuer rating reflect the city's sizable San Francisco Bay Area tax base with elevated taxpayer concentration, given its largest single taxpayer is a Chevron refinery. The rating also reflects resident wealth and income measures that are slightly below average, though the local economy is improving as employment and housing markets have strengthened. The rating incorporates the city's below average 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 also incorporates the risks from the city's large advances to its port enterprise, the contingent liability associated with significant litigation, the city's history of weak financial reporting, and significant management turnover. The city's leverage is elevated with a complex debt structure and high fixed costs.

The Baa3 POB rating benefits from the city's pension override tax, which can only be used for pension costs and POB debt service. The one-notch difference reflects our standard rating notching for a California city POB that benefits from such an override tax.

RATING OUTLOOK

The stable outlook reflects our view the city will maintain its current financial position. The city's ability to close its structural deficit, stabilize management and increase reserves will be key to future reviews of its credit profile.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Continued increase in available reserves
- Proactive cost-cutting and revenue-raising measures to address increasing fixed costs
- Material reduction in leverage

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

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

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 110,000 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 January 2021 and available at <https://ratings.moodys.com/api/rmc-documents/70015>. The principal methodology used in the pension obligation bond rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US Local Governments Methodology published in March 2022 and available at <https://ratings.moodys.com/api/rmc-documents/385579>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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