

Fitch Upgrades Rocklin, CA's \$2.9MM COPs to 'AA+'; Outlook Stable

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has upgraded Rocklin, California's (the city) outstanding obligations as follows:

--Approximately \$2.9 million certificates of participation (COPs) series 2003 to 'AA+' from 'AA';

--Implied general obligation rating (GO) to 'AAA' from 'AA+'.

The Rating Outlook is Stable.

SECURITY

The certificates are secured by Rocklin, CA's covenant to budget and appropriate lease payments for beneficial use and occupancy of the leased facilities under a standard lease-leaseback transaction between the city and the Rocklin Public Financing Authority. Additional security is provided through a debt service reserve surety and two years of rental interruption insurance up to an amount equal to maximum annual debt service (MADS) in either year.

KEY RATING DRIVERS

SOUND FINANCIAL RESERVES: Financial reserve levels remain very strong despite several years of revenue decline, which the city managed well. Fiscal year 2013 is expected to see a return to revenue growth, attributable to increased economic activity within the city, and Fitch believes that this trend of revenue growth will continue.

MODERATE DEBT PROFILE: The city's direct debt profile is low and overall debt is moderate. Amortization is rapid and future capital needs are minimal.

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RESILIENT LOCAL ECONOMY CONTINUES TO GROW: The city's local economy, while affected by the recession, has remained strong relative to the struggling Sacramento MSA (the MSA). The median single family home price has recovered over half of the value lost in the recession, and increased residential and commercial development have both driven tax base growth and bolstered sales tax revenues.

CONTINUED POSITIVE LOCAL ECONOMIC TRENDS: The city's unemployment rate remains well below state and national averages. Income indicators are well above average despite significant economic dislocation within the surrounding MSA.

LEASE APPROPRIATION ON ESSENTIAL ASSETS: The COPs are secured by lease payments made by the city subject to annual appropriation and abatement. Essential government assets including a police facility underlying the lease provide sufficient incentive for the city to appropriate.

RATING SENSITIVITIES

CONTINUED GROWTH IN LOCAL ECONOMY: The upgrade reflects the local economy's resilience following the recession despite the sluggishness of the surrounding MSA. Good recovery in the city's housing market and continued residential/commercial growth strengthen the tax base and the local economy as a whole.

CREDIT PROFILE

The city of Rocklin is located within Placer County (the county) and sits about 22 miles northeast of the city of Sacramento (GOs rated 'AA-'; Outlook Stable by Fitch). The city's population was 59,030 as of 2012.

RESILIENT LOCAL ECONOMY CONTINUES TO GROW

The regional economic slowdown caused new development activity to slow within the city for several years and reduced home values, resulting in total city AV declines of 16.8% between 2009 and 2013. However, a recent trend of commercial and residential development has reversed the tax base declines and the city posted a solid 7.5% gain in taxable value for fiscal 2014. In the past two years, the city has attracted several small- to medium-sized companies to various office parks, broken ground on two large shopping centers, attracted various retail (including a Target, a Wal-Mart, and a Tesla dealership) and commercial (including several start-ups and the national headquarters of Magus Pacific, an environmental remediation and consulting firm) entities, and finished phase-one construction of the Whitney Ranch, a 2,342 home residential development. Given the ongoing development and nearly \$857 million, or 12.9% of the city's fiscal year 2014 AV, in Prop 8 potential market value not currently captured in AV, Fitch believes that the city's tax base will continue this positive trend.

The city's employment base has also been resilient. Recession-related employment losses were fewer than the surrounding MSA, and both employment and labor force figures have returned to pre-recession levels. This has resulted in an unemployment rate that is consistently below the county, MSA, state, and national averages. Per capita income in the city is average for Placer County, although higher than the surrounding MSA, the state, and the nation. Educational attainment rates in the city are also above the national average.

The city has experienced significant population growth due to its relative affordability and proximity to the Sacramento region's employment base. While many residents take advantage of employment opportunities within the surrounding MSA, the local economy of the city benefits from employers in technology, with regional offices for Oracle and UPS within city limits, and higher education, with Sierra College and William Jessup University within city limits.

STRONG FINANCIAL PROFILE

City general fund reserves remain very strong following a 17% decline in revenue from fiscal year 2008 to fiscal year 2012. During this time, the city matched the declining revenues with reductions in capital spending, holding vacant positions open, and the implementation of furlough days, leading to an 18% reduction in general fund spending over the same time period. Fiscal year 2012 would have generated balanced general fund

operations but for a decision on the part of the city to fully pay down a \$4.5 million amortizing California Public Employee Retirement System (CALPERS) off-balance sheet liability that was initially created in 2003 to cover investment losses in the state pension system. This was a relatively common practice amongst California cities.

Fiscal year 2013 saw a return to revenue growth, as the improving local economy bolstered permits, business tax, and sales tax. Unaudited results for fiscal year 2013 show a \$2.4 million general fund surplus, growing unrestricted reserves to \$31.4 million, or a very solid 81.7% of spending. Revenue growth is budgeted to continue into fiscal year 2014, as property taxes begin to benefit from the higher AV, sales taxes benefit from recently completed retail construction, and permits and business tax revenue continue to benefit from development. The city has budgeted for a modest surplus in fiscal year 2014. The city plans to budget fiscal year 2015 assuming no AV growth, which Fitch considers very conservative given all of the development.

The city is creating a trust with the California Employers' Retiree Benefit Trust (CERBT) fund in February 2014 and (although not budgeted for fiscal year 2014) plans to eventually transfer \$11.5 million in previously set aside funds in order to begin paying down some of the OPEB liability. The funds are currently listed as a committed portion of unrestricted general fund balance. When measured net of the set-aside CERBT funds, unrestricted fund balance remains a still very strong 50.4% of fiscal year 2013 general fund spending and transfers, still well above the city's recently formalized 25% general fund balance policy.

MODERATE DEBT PROFILE

The city's overall debt profile is sound. Total debt levels including overlapping debt are moderate at \$5,015 per capita (4.7% of AV). Identified capital needs are minimal, related to street construction, and mostly funded by state grants. The COPs are secured by a lien on rental payments from the city for use of a police facility. The COP debt amortizes at an above-average rate, with 69% retired in five years and final payment in 2018. Fitch considers the leased asset to be essential, with a covenant to budget and annually appropriate, subject to abatement. This lesser security, combined with the essentiality of the leased assets, results in the one-notch distinction from the implied GO.

The city participates in the state pension plan, CALPERS, and historically has funded

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100% of its annual required contribution (ARC), which totaled \$4.3 million in fiscal 2013. The city funds its other post-employment benefit (OPEB) liability on a pay-go basis which totaled \$806,000 in fiscal 2012. The city's unfunded OPEB liability at June 30, 2012 was about \$47 million or a modest .74% of the city's total market value. Upon consideration of the city's general fund balance committed for the CERBT, the city's unfunded OPEB liability falls to about .55% of the city's total market value. Fitch views this attempt to pay down some of the OPEB liability, and the complete pay down of the city's CALPERS side fund liability in fiscal year 2012, positively.

Overall carrying costs for lease debt service, pension and OPEB costs are manageable at 15.5% of governmental spending. Management is implementing changes, such as concessions from labor units, to temper increasing pension and OPEB costs.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, National Association of Realtors.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

U.S. Local Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314

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