

Fitch Affirms Rohnert Park, CA's COPS at 'A+'; Outlook Revised to Stable

Written by Australian Business

SAN FRANCISCO--([BUSINESS WIRE](#))--Fitch Ratings affirms the following Rohnert Park, California's (the city) bonds:

--\$3.1 million series 1999 certificates of participation (COPS) at 'A+'.

In addition, Fitch affirms the following ratings:

--Implied unlimited tax general obligation (ULTGO) bond rating at 'AA-'.

The Rating Outlook is revised to Stable from Negative.

SECURITY

The certificates are secured by the city's covenant to budget and appropriate lease payments, subject to abatement, for the use and occupancy of the leased facilities. Standard insurance provisions apply.

KEY RATING DRIVERS

FINANCIAL BALANCE: The Outlook revision to Stable reflects the city's successful efforts to restore financial balance through extensive expenditure reductions, a modest increase in existing revenues due to an improving economy, and a voter-approved sales tax.

SALES TAX EXTENSION: Voters recently approved an extension of a half-cent sales tax previously set to expire in 2015. The extension does not include a sunset provision.

RESERVES OFFSET REVENUE VOLATILITY: Rating concerns regarding the city's somewhat volatile revenue base with its significant concentration in sales tax revenues are offset by solid reserves, which can act as a valuable cushion for a potential unanticipated decline in revenues.

UNFUNDED RETIREMENT BENEFITS: Substantial pension and other-post-employment benefit (OPEB) liabilities are likely to pressure the city's financial performance over the medium term. Negotiated reforms with some unions regarding OPEB may alleviate some of the financial pressure.

MODERATE DEBT LEVELS: The city's moderate debt levels are expected to decrease with no additional debt plans and the rapid amortization rate of outstanding principal.

RECOVERING ECONOMY: The local economy appears to be recovering with increased assessed value (AV) levels in fiscal 2014, above-average employment growth, and some on-going and planned development within the city.

RATING SENSITIVITIES

RETURN TO BUDGETARY IMBALANCE: An inability to maintain a structurally balanced budget may result in negative rating action.

CREDIT PROFILE

The city, located approximately 45 miles north of San Francisco in Sonoma County, is home to over 41,000 residents.

STRUCTURAL BALANCE RESTORED

The city is engaged in a multiyear process to balance its financial operations. Over the past few years, the city significantly reduced its workforce, negotiated concessions with labor unions, and received voter approval (2011) to implement a temporary half-cent sales tax. These efforts resulted in operating surpluses in fiscals 2012 and 2013 of \$1.1 million (4.6% of spending) and \$1.4 million (5.5%), respectively. Projections for fiscal 2014 reflect an additional year of positive results with an operating surplus around \$1 million.

The city's budget is structurally balanced following the recent voter-approved extension of the half-cent sales tax that was originally set to expire in 2015. The sales tax, which contributes approximately \$3.6 million annually, does not have a sunset provision. Fitch views the extension positively, although the reliance on sales tax revenues increases the volatility of the city's revenue base. The adopted fiscal 2015 budget is projected to record an operating surplus of approximately \$300,000.

SOLID RESERVES OFFSET VOLATILE REVENUES

The city's positive operating performance since fiscal 2012 has bolstered reserve levels, raising them to solid levels for the rating. At the end of fiscal 2013, the city's unrestricted fund balance was \$6.5 million or 26.3% of spending. Liquidity levels remain sound with the general fund holding \$9.4 million in cash at fiscal 2013 year end, resulting in a 2.8x quick ratio.

Fitch views the city's reserve levels as a positive offset to a somewhat volatile revenue base that is concentrated in sales tax revenues from a tourism-focused economy (36.7% of total revenues in fiscal 2013).

FUTURE BUDGETARY PRESSURES

The city has significant unfunded pension and OPEB liabilities that are likely to pressure its financial performance over the medium term. Fitch calculated carrying costs were approximately 18.5% of governmental spending in fiscal 2013 and expected to increase with rising pension and OPEB costs. General fund pension contribution amounts

are expected to increase by a cumulative \$1.5 million over the next several years. The unfunded OPEB liability, estimated at \$46.4 million (1.3% of fiscal 2014 AV), is also likely to result in contribution increases over the near term.

The city is making progress in addressing these liabilities. Recent labor agreements reached with two unions include OPEB reforms that will significantly reduce the city's liability by limiting the duration and scope of provided benefits. While the agreement obligates the city to cash-fund health savings accounts that will result in a manageable one-time reduction in available reserves, Fitch views the agreements positively. Negotiations are on-going with the remaining unions.

TOURISM-CENTERED LOCAL ECONOMY

The local economy is driven by tourism due to its proximity to Sonoma County's wineries, a golf course and various local recreational activities. The largest employer in the city, Sonoma State University with its new music center, also attracts visitors.

Economic indicators point to an on-going recovery in the city. Above-average employment growth has driven the city's unemployment rate down to 6.0% (March 2014) from 8.3% in 2012, which compares favorably to that of the state (8.4%) and nation (6.8%).

The city's AV is down a moderate 7.7% from the 2009 peak following a 3.7% increase in fiscal 2014. The recent uptick in AV reflects the on-going recovery of the local residential market, which is expected to continue in fiscal 2015.

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, Zillow.com.

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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