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## Summary:

# Oxnard Financing Authority Oxnard, California; Appropriations; General Obligation; Joint Criteria

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## Summary:

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### Credit Profile

Oxnard ICR

*Long Term Rating*

A+/Stable

Outlook Revised

## Rationale

S&P Global Ratings revised its outlook on Oxnard Financing Authority and City of Oxnard, Calif. to stable from negative. At the same time, S&P Global Ratings affirmed its 'A+' issuer credit rating on Oxnard and affirmed its 'A' rating on the financing authority's bonds, issued on behalf of the city. S&P Global Ratings also affirmed its 'A' rating on the authority's lease revenue project and refunding bonds series 2014, issued for the city.

The outlook revision is based on preliminary 2016 results showing stabilization of the general funds together with ratification of labor contracts with several major employee unions over a two-year horizon.

The 'AA+/A-1' ratings on the authority's series 2003B and 2006 bonds, which reflect our view of the letters of credit provided by MUFG Union Bank (A+/Negative/A-1) and the application of the low-correlation joint criteria.

The series 2014 bonds are payable from revenue received by the Oxnard Financing Authority that consists of base rental payments made by the city, under the master lease. The bonds were issued by the authority. Under a lease, the city (as lessee) will pay base rental payments to the authority (as lessor).

The rating reflects our assessment of the following factors for the city, specifically its:

- Adequate economy, with projected per capita effective buying income at 67.8% and market value per capita of \$88,126, though that is advantageously gaining from access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with "standard" financial policies and practices under our Financial Management Assessment methodology;
- Weak budgetary performance, with an operating deficit in the general fund but an operating surplus at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 17% of operating expenditures;
- Very strong liquidity, with total government available cash at 90.2% of total governmental fund expenditures and 15.0x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 6.0% of expenditures and net direct debt that is 85.1% of total governmental fund revenue, as well as a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation; and
- Strong institutional framework score.

### **Adequate economy**

We consider Oxnard's economy adequate. The city, with an estimated population of 206,214, is located in Ventura County in the Oxnard-Thousand Oaks-Ventura, CA MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 67.8% of the national level and per capita market value of \$88,126. Overall, the city's market value grew by 4.4% over the past year to \$18.2 billion in 2016. The county unemployment rate was 5.7% in 2015.

### **Adequate management**

We view the city's management as adequate, with "standard" financial policies and practices under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some but not all key areas.

In September 2014, with the support of City Council, the city initiated an independent review of the City Manager's Office, Human Resources Department, Finance Department, and other support departments. It found many neglected or inappropriate management practices. The independent assessment found that staff were not following various financial management policies. They identified several policy areas that were of concern: Multiyear forecasts, appropriate reserve levels, short-term debt, and shortcomings in the capital improvement area.

With the changes in key management personnel, Oxnard is embracing a higher degree of operational transparency and working with all city departments to develop a more sustainable financial model. Biennial budgets are prepared with annuals, which are adopted annually and prepared on a generally accepted accounting principles (GAAP) basis using 10-year historical data as guidance. Staff presents the budget semiannually to the council for review and updates and plans on updating the council quarterly in 2016. Management has created a long-term, 10-year forecast of revenues and expenses but does not necessarily update it on a rolling basis. Management does have a four-year capital plan with funding sources identified. The treasurer reviews investment performance monthly.

### **Weak budgetary performance**

Oxnard's budgetary performance is weak in our opinion. The city had deficit operating results in the general fund of 7.6% of expenditures, but a surplus result across all governmental funds of 4.9% in fiscal 2015. Weakening our view of Oxnard's budgetary performance is the city's deferral of significant expenditures, which we think inflates the budgetary result ratios.

Total general fund revenues grew by \$11 million (9%) mainly due to an increase in tax revenues of \$5.7 (6%) and remaining due to an increase in intergovernmental revenues. Total general fund expenditures grew by \$12.8 million (11.5%) largely related to an increase in expenditures for current operations. The general fund transferred \$18 million to other governmental funds to cover deficit cash positions or transfer funds where interfund loans could not be repaid in reasonable period of time. Despite higher revenues and lower spending than anticipated in the original budget, the need to transfer cash to other governmental funds reduced the general fund balance by \$9 million.

Fiscal 2016 revenues are projected to surpass budgeted numbers, mostly due to the one-time \$3.5 million successor agency payment in this year that will not be budgeted for next year.

Fiscal 2017 growth is in property and sales tax revenues. Combined property and sales tax growth in fiscal 2015 was

6% and was estimated to reach 3% in fiscal 2016 and 7% in fiscal 2017.

### **Very strong budgetary flexibility**

Oxnard's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 17% of operating expenditures, or \$21.2 million.

As a result of the \$14.8 million deficit, the undesignated general fund balance is committed (and essentially eliminated) in fiscal 2014-2015 to cover the deficit positions. Fiscal 2015 shows reserves to be about 17% of expenditures and falling to about 13% in 2016.

### **Very strong liquidity**

In our opinion, Oxnard's liquidity is very strong, with total government available cash at 90.2% of total governmental fund expenditures and 15.0x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

Using undesignated fund balance to eliminate the deficits would leave a \$3.5 million deficit fund balance in the general fund, threatening the city's solvency. To manage this threat by preserving the general fund balance at about 10% of expenditures and transfers, management recommends loaning the general fund \$16 million from the Measure O fund. Analysis indicates that the Measure O fund has adequate cash for the loan and is the best legal source to provide liquidity. The loan allows the city to spread the impact of correcting its accounting practices and complying with GAAP and the law over several years.

The loan would be repaid over a period of 10 years at 3% interest with an annual transfer from the general fund to Measure O of \$1,875,688. With this loan payment, the Measure O fund would have between \$3.5 million and \$4.5 million to program in each year for the next five years. Management expects that approximately \$7.3 million of previously approved Measure O appropriations will be unspent at June 30, 2016.

Oxnard has letters of credit with one bank that expire in November 2016. Officials are currently working on either renewing with MUFU Union Bank or potentially finding a replacement.

The city has entered into three floating-to-fixed interest rate swaps with a notional amount totaling \$47,715,000. It pays the counterparty a fixed amount of 3.530%, 4.017%, and 4.037% on each swap agreement, respectively, and receives variable payments computed as 68% of the one-month LIBOR. At June 30, 2015, this interest rate swap had a fair value of a negative \$9,916,913.

### **Very weak debt and contingent liability profile**

In our view, Oxnard's debt and contingent liability profile is very weak. Total governmental fund debt service is 6.0% of total governmental fund expenditures, and net direct debt is 85.1% of total governmental fund revenue.

The city has series 2003B lease revenue bonds, 2006 lease revenue bonds, and 2004B wastewater revenue bonds as variable-rate debt. However, it has swap agreements for all three bonds.

In our opinion, a credit weakness is Oxnard's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. Oxnard's combined required pension and actual OPEB contributions totaled 12.3% of total governmental fund expenditures in 2015. The city made its full annual required pension contribution in

2015. The largest plan, the municipal employees plan, maintained a funded level of 75.4%, utilizing the plan's fiduciary net position as a percentage of the total pension liability. Oxnard made its full required contribution, based on an actuary study where the actuarially determined contribution is calculated to pay down the liability over 30 years.

The Public Safety Retirement Fund (Carman Override) has various state restrictions on what is an eligible cost for reimbursement by this special tax. Oxnard's use of this funding source was not consistent with state law. To correct this, the city required a \$5.5 million reduction in this revenue source. The costs deemed ineligible fell to the general fund as a direct expense. Meanwhile, California Public Employees' Retirement System costs are accelerating over the next six years as part of a six-year phase-in of higher costs necessitated by changes in pension funding policies by the state.

### Strong institutional framework

The institutional framework score for California municipalities required to submit a federal single audit is strong.

## Outlook

The stable outlook reflects our opinion of the size and depth of the city's tax base as well as the local and regional economies' general strength. In addition, the outlook is supported by our view of the city's still very strong assigned and unassigned general fund balances, despite the drawdown in reserves, and adequate management practices. We do not anticipate raising the ratings during the two-year outlook horizon.

### Upward scenario

We could raise the ratings should the city's operations improve and its overall debt profile moderate.

### Downward scenario

We could lower the ratings if the city is unable to continue on its path of building stronger financial controls, resulting in a negative trend in operations leading to significant deterioration in budgetary flexibility and liquidity.

Ratings Detail (As Of September 26, 2016)		
Oxnard lse rev proj and rfdg bnd		
<i>Long Term Rating</i>	A/Stable	Outlook Revised
Oxnard lse ser 2011 (AGM)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Outlook Revised
Oxnard APPROP		
<i>Long Term Rating</i>	A/Stable	Outlook Revised
<b>California Municipal Finance Authority, California</b>		
Oxnard, California		
California Municipal Finance Authority (Oxnard) APPROP		
<i>Long Term Rating</i>	A/Stable	Outlook Revised
California Municipal Finance Authority (Oxnard) APPROP		
<i>Long Term Rating</i>	A/Stable	Outlook Revised
<b>Oxnard Fincg Auth, California</b>		
Oxnard, California		

**Ratings Detail (As Of September 26, 2016) (cont.)**

**Oxnard Fincg Auth lse rev (Civic Center Phase 2 Project)**

<i>Unenhanced Rating</i>	A(SPUR)/Stable	Outlook Revised
<i>Long Term Rating</i>	AA+/A-1	Affirmed

**Oxnard Fincg Auth lse VRDB ser 2003B**

<i>Unenhanced Rating</i>	A(SPUR)/Stable	Outlook Revised
<i>Long Term Rating</i>	AA+/A-1	Affirmed

Many issues are enhanced by bond insurance.

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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