S&P Global
Ratings

RatingsDirect®

Summary:

Oxnard, California; Appropriations; General Obligation

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

Secondary Contact:
Chris Morgan, San Francisco + 1 (415) 371 5032; chris.morgan@spglobal.com

Table Of Contents

Summary:

Oxnard, California; Appropriations; General Obligation

Credit Profile		
US$29.6 mil lse rev bnds (tax-exempt) (Oxnard) ser 2022A due 06/01/2047		
Long Term Rating	A/Stable	New
US$8.18 mil lse rev bnds (federally taxable) (Oxnard) ser 2022B due 06/01/2037		
Long Term Rating	A/Stable	New
Oxnard ICR		
Long Term Rating	A+/Stable	Upgraded
Oxnard APPROP		
Long Term Rating	A/Stable	Upgraded

Credit Highlights

- S&P Global Ratings raised its issuer credit rating (ICR) 'A+' from 'A' on Oxnard, Calif.
- At the same time, S&P Global Ratings raised its long-term and underlying rating (SPUR) to 'A' from 'A-' on the city's outstanding appropriation debt.
- Finally, S&P Global Ratings assigned its 'A' long-term rating to the Oxnard Financing Authority, Calif.'s anticipated $29.6 million series 2022A lease revenue bonds and anticipated $8.18 million series 2022B lease revenue bonds (federally taxable), issued on behalf of the city of Oxnard.
- The outlook on all ratings is stable.
- The raised ratings reflect our view of the city's implementation of stronger internal controls, materially stronger sales tax revenue generating ability with the passage of a voter-approved sales tax rate increase in 2020, and a projection of increasing general fund reserves to very strong levels going into fiscal 2023 despite a one-time settlement paid from the general fund. Additionally, we note that the city has resolved its litigation regarding the use of city's infrastructure use fees (IUF) which, in our view, reduces the uncertainty regarding the financial influence of this contingent liability.

Security

The series 2022A and series 2022B lease revenue bonds are secured by lease payments made by the city to the authority for use of the leased assets. We have reviewed the lease under our criteria and view the lease terms as standard. Furthermore, the leased assets meet our minimum requirements for seismic resilience during the term of the bonds. We rate the bonds one notch below our view of the city's general creditworthiness to reflect our view of the risk of nonappropriation inherent to the lease structure. The bonds will be structured with a debt service reserve fund that will be 75% funded with a surety bond and 25% funded with cash. Bond proceeds will be used to finance street and alleyway improvements and to finance software and services for the city's enterprise resource planning system.

The ICR reflects our view of the city's general creditworthiness and does not incorporate the features of any specific debt instrument.

Credit overview

With the appointment of new city leadership in 2018, the city has been successful at implementing new internal controls to address the city's previously identified management deficiencies from 2015. Additionally, there were no material weaknesses identified by the auditor in the city's past three financial audits. Management reports it has remedied 156 unique audit findings with only three unresolved findings remaining and is working toward a resolution of the remaining findings. The city's local economy has also demonstrated a strong recovery since the onset of the COVID-19 pandemic, as evidenced by the continued growth in property tax revenues and very strong growth in its sales tax revenues. Contributing to this sales tax growth is the passage of Measure E, a 1.5% sales tax increase, that was approved by voters in November 2020 and implemented in April 2021. Total sales tax revenues increased by 58% in fiscal 2021 and are projected to increase by another 86% in 2022 due to both the passage of Measure E and an overall recovery of the local economy.

We note that the city recently resolved its litigation surrounding the use of IUF revenues that resulted in a required transfer of $36.5 million of funds from the general fund to the city's wastewater, water, and environmental resources funds. Despite this one-time drawdown of general fund reserves in fiscal 2021, estimated actuals for fiscal 2022 show general fund reserves rising back to very strong levels due to the strong sales tax revenue collection. With the positive trends in both sales taxes and property taxes, we believe the city will likely maintain strong financial performance and at least strong reserve levels during the outlook period.

The rating also reflects our view of the city's:

- Adequate local 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 methodology;
- Adequate budgetary performance with a large increase in sales tax revenues during the past two fiscal years;
- Strong budgetary flexibility, with an available fund balance of 9.5% of operating expenditures in fiscal 2021 with a projection of reserves rising to very strong levels in fiscal 2022; and
- Weak debt and contingent liability position, with what we consider to be a large pension obligation with the potential for pension costs to rise in the longer term.

Environmental, social, and governance

We analyzed the city's environmental, social, and governance (ESG) risks relative to its economy, management, financial measures, and debt-and-liability profile. While we consider the city's social and governance risks neutral within our credit analysis, we view environmental risks as elevated. The city has elevated exposure to sea level rise and seismic activity--an acute physical risk--although we believe that strong state building codes have partly mitigated the seismic risk.

Outlook

The stable outlook reflects our opinion of the city's growth in its major revenue streams and management's estimate of ending fiscal 2022 with an operating surplus in the general fund. We also expect that the city will be able to successfully manage its operating costs to maintain at least strong financial performance and flexibility scores. Therefore, we do not expect to change the ratings within the two-year outlook horizon.

Downside scenario

We could consider a negative rating action if the city produces additional deficit operations, which result in material reductions in available reserves, or if audited fiscal 2022 results are materially worse than current expectations.

Upside scenario

We could consider a positive rating action if the city is able to produce positive financial results that we believe will be sustainable going forward that would continue to increase its available reserves to very strong levels in compliance with its reserve policy. A higher rating would also be contingent on management's continued efforts to address its audit findings and its continued practice of implementing stronger internal controls.

Credit Opinion

Adequate economy that fully participates in the greater Oxnard-Thousand Oaks-Ventura metropolitan region with below average income levels

Oxnard serves a 27-square-mile area that continues to serve as a market and housing center for an agricultural area focused on fruit and berry production and includes a coastal area that is a locus of second homes and maritime recreation. Property values have continued to grow during the past several years despite the COVID-19 pandemic. Home prices have been growing in recent years, which has contributed to the growth in citywide assessed value (AV) levels. Although rising mortgage rates could weaken the strength of the housing market with a slowdown in home sales or a softening of housing prices, we believe the city's taxing base will likely remain stable in the near-term. Per capita income levels are somewhat below average when compared to the national level, although we believe city residents have access to employment opportunities throughout the greater metropolitan region. While unemployment rates for Ventura County have been trending downward in recent years, we believe there is a risk that unemployment rates could rise in the near-term with the growing risk of a new recession.

For more information, see "Global Credit Conditions Q4 2022: Darkening Horizons", published Sept. 29, 2022, on RatingsDirect.

Strong management, with "good" financial policies and practices under our Financial Management Assessment methodology

We have revised our view of management profile to strong from weak and revised our view of institutionalized policies and practices to 'good' from 'adequate', reflecting the city's efforts in addressing its previous management and internal control deficiencies that were first identified several years ago in 2015. With the hiring of new senior management beginning in 2018, city staff have made progress in resolving most of its auditor findings and is working toward a resolution of the remaining findings. As a result, we no longer consider the city to be affected by political instability and turnover that would negatively affect city financial performance and flexibility.

Elements of the city's financial policies and practices include:

- Sophisticated budget-building methodology, with an extensive analytical budget message explaining management's recommendations, coupled with positive budgetary variances in recent years;
- Monthly budget-to-actual updates to the council, with an analytical cover letter provided midyear to explain financial drivers;
- The city prepares a five-year long-term financial forecast that is updated annually and included in its budget. The city also maintains an internal 10-year financial forecast for its general fund;
- The city maintains a rolling five-year capital improvement plan with funding identified;
- Quarterly investment holdings and performance reports to the council, with investment decisions governed by a formal comprehensive policy that was most recently refreshed in June 2022;
- Principles-based debt management policy that includes good qualitative requirements and limitations. Qualitative limitations include a cap of 10% of budget for principal and interest payments during any single year; and
- Formal reserve policy of 12% of the general fund operating budget. We note that general fund reserves reported in fiscal 2021 currently do not meet this requirement due to the one-time transfer for the IUF repayment, although estimated actuals for fiscal 2022 show reserves rising back to compliant levels.

The institutional framework score for California municipalities is strong.

Adequate financial performance, supported by good growth in property taxes and substantial growth in sales tax revenues with the passage of Measure E, a voter-approved sales tax rate increase

The city has demonstrated adequate financial performance in recent years despite the influence of the COVID-19 pandemic and a one-time drawdown of general fund reserves due to a litigation resolution. While sales tax figures dropped briefly in 2020 with the onset of the pandemic, we note these revenues have reflected a very strong recovery since then and continue to grow year-after-year since 2020. Notably, sales tax revenues have increased by 58% in fiscal 2021 and by 86% in fiscal 2022. This strong growth reflects both Measure E, approved by voters in 2020 and implemented in 2021, as well as an overall recovery of the local economy in those years. Management reports that Measure E increased sales tax revenues by approximately $18.5 million up to $50.5 million in fiscal 2021, a significant increase of 56% from just $32 million in fiscal 2020. Projections for fiscal 2022 show sales tax revenues increasing to $94.2 million. Sales tax revenues now make up the city's largest general fund revenue stream, reflecting 46% of total budgetary revenues in fiscal 2023, followed by property tax revenues at 32%. Property tax revenues have also continued to grow, reflective of the consistent growth in citywide AV. Housing demand for the region remains strong and home prices continue to grow, which has resulted in higher AV levels, although rising mortgage rates could result in a softening of the housing market and slower growth in citywide AV.

We note that the city utilized its general fund reserve in fiscal year 2021, primarily due to the resolution of outstanding litigation related to the city's use of IUF revenues. The judgment required the city to transfer approximately $36.5 million from the general fund to the city's wastewater, water, and environmental resources funds. We understand the city has set these funds aside and our reserve calculations do not include these committed funds. After netting the committed $36.5 million, we calculate available general fund reserves at 9.5% of expenditures, a level we consider to be strong. However, the city's estimated actuals for fiscal 2022 reflect a large operating surplus in the general fund, and reserves (excluding a $18 million capital improvement reserve) are projected to rise to $41.3 million or 23.5% of expenditures.

Weak debt and contingent liability profile with a large pension obligation

In our opinion, a credit weakness is the city of Oxnard's large pension obligation, which reflects a large portion of the city's budget. The city's pension carrying charges (normal cost and amortization cost) for each of its pension plans totaled approximately $40 million in fiscal 2022, which represents approximately 18% of total governmental fund (TGF) expenditures. We note that the city also levies an additional pension tax override (PTO), the revenues from which can only be used to fund public safety pension costs. In fiscal 2022, approximately $15.2 million of the city's pension carrying charges were paid for by PTO revenues. Additionally, we understand the enterprise funds pay approximately $9.1 million of the $40 million in pension costs. After netting out the amounts covered by the PTO revenues, total pension cost to the general fund is approximately $24.8 million or 9% of TGF expenditures. Netting out the amounts paid for by the enterprise funds, total pension costs to the general fund would fall to $15.8 million or 7% of TGF expenditures.

The city's employees participate in pension plans offered by the California Public Employees Retirement System (CalPERS), primarily under the safety and miscellaneous plans. Additionally, we note that CalPERS' investment returns have trended downward in fiscal year 2022, which could eventually result in increased pension liabilities for the city.

The city participates in the following pension plans as of fiscal 2021:

- CalPERS miscellaneous plan: 72.6% funded with a net liability of $142.3 million.
- CalPERS safety plan (police): 74.8% funded with a net liability of approximately $104.6 million.
- CalPERS safety plan (fire): 75.1% funded with a net liability of approximately $58.1 million.
- City of Oxnard's Retirement Enhancement Plan: 100.96% funded with a net $1.034 million.
- City of Oxnard's Other Postemployment Benefits (OPEB) plan: $55.1 million total OPEB liability.

For more information on our view of California pensions, see our report "Pension Spotlight: California", published July 13, 2021, on RatingsDirect.

Oxnard, Calif.: Key Credit Metrics

	Most recent	Historical information		
		2021	2020	2019
Adequate economy				
Projected per capita EBI % of U.S.	65.3			
Market value per capita ($)	119,260			
Population		207,449	209,146	210,402
County unemployment rate(%)		6.2		
Market value ($000)	24,740,419	21,943,646		
Ten largest taxpayers % of taxable value	5.4			

Oxnard, Calif.: Key Credit Metrics (cont.)				
	Most recent	**Historical information**		
		2021	**2020**	**2019**
Adequate budgetary performance				
Operating fund result % of expenditures		(11.4)	(3.3)	1.1
Total governmental fund result % of expenditures		11.1	(2.8)	3.8
Strong budgetary flexibility				
Available reserves % of operating expenditures		9.5	14.0	19.6
Total available reserves ($000)		15,266	23,295	31,706
Very strong liquidity				
Total government cash % of governmental fund expenditures		157.8	132.9	124.1
Total government cash % of governmental fund debt service		3,620.9	2,261.3	2,366.9
Strong management				
Financial Management Assessment	Good			
Weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		4.4	5.9	5.2
Net direct debt % of governmental fund revenue	78.2			
Overall net debt % of market value	4.1			
Direct debt 10-year amortization (%)	56.4			
Required pension contribution % of governmental fund expenditures		6.9		
OPEB actual contribution % of governmental fund expenditures		0.4		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2022 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of October 26, 2022)		
Oxnard APPROP (BAM)		
Unenhanced Rating	A(SPUR)/Stable	Upgraded
California Municipal Finance Authority, California		
Oxnard, California		
California Mun Fin Auth (Oxnard) APPROP		
Long Term Rating	A/Stable	Upgraded
Oxnard Fincg Auth, California		
Oxnard, California		
Oxnard Fincg Auth (Oxnard) APPROP (BAM)		
Unenhanced Rating	A(SPUR)/Stable	Upgraded

Ratings Detail (As Of October 26, 2022) (cont.)

Many issues are enhanced by bond insurance.

S&P Global Ratings

RatingsDirect®

Summary:

Oxnard, California; Gas Tax

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

Secondary Contact:
Chris Morgan, San Francisco + 1 (415) 371 5032; chris.morgan@spglobal.com

Table Of Contents

Summary:

Oxnard, California; Gas Tax

Credit Profile		
Oxnard GASTAX (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings raised its long-term and underlying rating (SPUR) to 'AA-' from 'A+' on Oxnard, Calif.'s series 2020 gas tax revenue refunding bonds.
- The outlook is stable.
- The raised ratings reflect our view of the city's stronger general credit profile due to the implementation of stronger internal controls, materially stronger sales tax revenue generating ability with the passage of a voter approved sales tax rate increase in 2020, and a projection of increasing general fund reserves to very strong levels going into fiscal 2023 despite a one-time settlement payment of funds out of the general fund. Additionally, the pledged gas tax revenue stream has been positive in 2021, resulting in coverage remaining very strong in our view.

Security

The series 2020 gas tax bonds are secured by a first lien on gas tax revenue that the city receives each month under the state's Streets and Highways Code sections 2105, 2106, and 2107 (but not 2107.5).

Credit overview

Our rating on Oxnard's gas tax obligations is limited by our view of the city's creditworthiness as obligor, given what we see as a close linkage between the city and its gas tax obligations under our priority lien criteria. We believe the city's general credit quality has improved, based on our view of the city's implementation of stronger internal controls, materially stronger sales tax revenue generating ability with the passage of Measure E , a voter approved sales tax rate increase, in 2020, and a projection of increasing general fund reserves to very strong levels going into fiscal 2023, despite a one-time settlement payment of funds out of the general fund. Additionally, we note that the city has resolved its litigation regarding the use of the city's infrastructure use fees (IUF) which, in our view, reduces the uncertainty regarding this contingent liability's potential influence on the general fund.

For the stand-alone credit profile associated with the series 2020, we see the statewide collection and population-driven gas tax distribution formulas as a credit strength, although collections in practice have been more volatile than our baseline assessment of this type of revenue. We anticipate coverage to remain very strong in the medium term, based on the growth in gas tax revenues in recent years and an inability to issue additional parity debt other than for refunding purposes.

Key credit considerations are:

- Very strong economic fundamentals, with statewide collections of gas tax revenue;
- Very strong coverage and liquidity profile, with 2.4x series 2020 maximum annual debt service coverage based on the most recent full collection year and an inability to issue additional "new money" debt;
- Our view that pledged revenue has demonstrated moderate volatility; and
- A close linkage to Oxnard's creditworthiness as obligor, which results in a cap on the rating.

Environmental, social, and governance

We analyzed the city's environmental, social, and governance (ESG) risks relative to its economy, management, financial measures, and debt-and-liability profile. While we consider the city's social and governance risks neutral within our credit analysis, we view environmental risks as elevated. The city has elevated exposure to sea level rise and seismic activity--an acute physical risk--although we believe that strong state building codes have partly mitigated the seismic risk. We note also that the gradual transition toward the greater use of electric and hybrid vehicles could lead to lower demand for fuel sales and result in reduced gas tax revenue in the long-term, which we view as an environmental risk factor, although the effect of this transition is likely minimal in the near term.

Outlook

The stable outlook reflects our opinion of the city's growth in its major revenue streams and management's projection of ending fiscal 2022 with an operating surplus in the general fund. We also expect that the city will be able to successfully manage its operating costs to maintain at least strong financial performance and flexibility scores. Finally, we expect that pledged gas tax revenues will likely remain very strong despite high per-gallon prices due to the continued demand for gasoline. Therefore, we do not expect to change the ratings within the two-year outlook horizon.

Downside scenario

We could consider a negative rating action if the city produces deficit operations, which result in material reductions in available reserves and results in an overall weaker general creditworthiness for the city's credit profile. Additionally, a negative rating action could result if pledged gas tax revenues fell substantially, resulting in coverage falling to much weaker levels.

Upside scenario

We could consider a positive rating action if the city is able to produce positive financial results that we believe will be sustainable going forward that would continue to increase its available reserves to very strong levels, resulting in a stronger general creditworthiness for the city's credit profile. A higher rating would also be contingent on management's continued efforts to address its audit findings and its continued practice of implementing stronger internal controls.

Credit Opinion

Economic fundamentals: Very strong

Tax revenue is collected across the state and distributed to each city largely based on population, after some deductions for more targeted purposes. While the city of Oxnard's population is a key factor in how much revenue is received, we have considered the tax base as gas sales throughout California.

Oxnard, with an estimated population of 207,449, serves a 27-square-mile area that continues to serve as a market and housing center for an agricultural area focused on fruit and berry production, and includes a coastal area that is a locus of second homes and maritime recreation. The city is part of the Oxnard-Thousand Oaks-Ventura metropolitan statistical area, which we consider broad and diverse. Income levels for Oxnard residents, as measured by per capita effective buying income, are a low 65% of the U.S. level. We view the city's population growth trend (currently at 1.2% annually) as likely to continue in some form into the next decade. The city's developable land and affordability relative to its Ventura County peers has made it a primary housing development location in the western Los Angeles region.

Coverage and liquidity: Very strong

In fiscal 2021, pledged revenue grew by 1.6% to $3.1 million, following a decline in fiscal 2020 of about 6%. Coverage relative to peak debt service in fiscal 2023 is very strong, in our view, at 2.4x using fiscal 2021 figures.

After fluctuations in gas prices in the state generally, we think the trajectory of the city's population is likely to be the main driver of pledged revenue for the foreseeable future. The distribution formulas for the statutes governing gas tax have been consistent historically without a decrease since at least 1994. Article 19 of the state constitution, which provides that motor vehicle fuel tax proceeds be used for transportation projects, dictates that the tax continue to be distributed in a manner consistent with statutory formulas. However, the legislature has the discretion to change the formulas as long as the equity of allocations is maintained; it may also change the overall fuel tax rate. We also think that an adverse state budget environment could lead the state to attempt to divert or delay gas tax distributions, notwithstanding voter-approved protections approved since the latest period of deferrals. Furthermore, the state of California has mandated that all new vehicles sold after 2035 must be zero-emission vehicles, although we note that existing gasoline-fueled vehicles are still permitted to be driven in the state. While this will reduce the demand for gasoline in the longer term, we believe the demand for gasoline will likely remain strong through the maturity of the existing bonds. The series 2020 bonds mature in 2038.

The state makes monthly gas tax distributions to the city, which, under the series 2020 bond provisions, must pass on gas tax revenue to the trustee at least five business days prior to each interest payment date. The city will manage liquidity risks with a debt service reserve initially fulfilled with a surety policy and sized to the least of 10% of principal, 1.25x average annual debt service, and maximum annual debt service.

Volatility: Moderate

We assess the volatility of revenue to determine the likelihood of the availability of revenue during different economic cycles. We have two levels of volatility assessment: macro and micro.

On a macro level, we consider gas tax revenue to have a low historical volatility assessment given the critical nature of gasoline for automobiles and other transportation. Nationwide gasoline sales have historically fluctuated less than total consumption of goods and services, even despite severe economic downturns and price fluctuations, given the relative inelasticity of demand for motor fuel.

On a micro level, retail gas prices in the state have been on upward trajectory since 2016, and we are forecasting largely stable crude oil prices using the U.S.' most widely benchmarked index through 2022. These patterns have translated into uneven pledged revenue, with up and down years during the past decade, and a current four-year declining trend. Adding to uncertainty, in our view, was a 2017 change to a flat per-gallon tax from one based on the price per gallon, but the change appears likely to have a moderating effect on revenue collections.

Obligor linkage: Close

We believe the priority lien on pledged revenue provides some protection from operating risk. However, because pledged revenue is collected monthly by the city--which then is responsible for transferring the money to the trustees--we consider the flow of pledged revenue to be within the city's direct control. We also do not view the city as benefiting from a limited scope of operations or extraordinary expenditure flexibility. Under our criteria, this narrows the linkage between the priority lien pledge and the obligor's creditworthiness, as we believe pledged revenue has some exposure to operating risk.

Rating linkage to the city of Oxnard

Our 'A+' issuer credit rating on Oxnard limits our rating on its gas tax obligations because the issuer credit rating is more than one notch lower than our view of both series' stand-alone credit profile.

With the appointment of new city leadership in 2018, the city has been successful at implementing new internal controls to address the city's previously identified management deficiencies from 2015. Additionally, there were no material weaknesses identified by the auditor in the city's past three financial audits. Management reports it has remedied 156 unique audit findings with only three unresolved findings remaining and is working toward a resolution of the remaining findings. The city's local economy has also demonstrated a strong recovery since the onset of the COVID-19 pandemic, as evidenced by the continued growth in property tax revenues and very strong growth in its sales tax revenues. Contributing to this sales tax growth is the passage of Measure E, a 1.5% sales tax increase, that was approved by voters in November 2020 and implemented in April 2021. Total sales tax revenues increased by 58% in fiscal 2021 and is projected to increase by another 86% in 2022 due to both the passage of Measure E and an overall recovery of the local economy.

We note that the city recently resolved its litigation surrounding the use of IUF revenues that resulted in a required transfer of $36.5 million of funds from the general fund to the city's wastewater and water funds. Despite this one-time drawdown of general fund reserves in fiscal 2021, projections for fiscal 2022 show general fund reserves rising back to very strong levels due to the strong sales tax revenue collection. With the positive trends in both sales taxes and property taxes, we believe the city will likely maintain strong financial performance and at least strong reserve levels during the outlook period.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed