S&P Global Ratings

RatingsDirect®

Summary:

Thousand Oaks Public Financing Authority, California Thousand Oaks; Appropriations

Primary Credit Analyst:
Andrew Bredeson, Centennial + 1 (303) 721 4825; andrew.bredeson@spglobal.com

Secondary Contact:
Li Yang, San Francisco (1) 415-371-5024; li.yang@spglobal.com

Table Of Contents

Summary:

Thousand Oaks Public Financing Authority, California
Thousand Oaks; Appropriations

Credit Profile		
US$9.0 mil 2020 rfdg lse rev bnds (Thousand Oaks) due 06/01/2031		
Long Term Rating	AA+/Stable	New
Thousand Oaks Pub Fing Auth, California		
Thousand Oaks, California		
Thousand Oaks Pub Fincg Auth (Thousand Oaks) rfdg lse rev bnds		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to the Thousand Oaks Public Finance Authority, Calif.'s series 2020 refunding lease revenue bonds, issued on behalf of the city of Thousand Oaks. At the same time, S&P Global Ratings affirmed its 'AA+' underlying rating on the authority's series 2010 refunding lease revenue bonds, issued on behalf of the city. The outlook is stable.

The rating on the lease revenue bonds reflects the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria, published Nov. 20, 2019, because the lease payments securing the lease revenue bonds are subject to annual appropriation by the city. Per our criteria and our review of the lease documents, we assign an issue credit rating on the lease revenue bonds one notch below the city's implied general creditworthiness. To evaluate the city's general creditworthiness, we have applied our "U.S. Local Governments General Obligation Ratings" criteria, published Sept. 12, 2013.

Security and use of proceeds

Lease payments made by the city (as lessee) to the Thousand Oaks Public Financing Authority (as lessor) secure the bonds. The city has covenanted to budget and appropriate lease payments so long as the bonds remain outstanding. While lease payments are subject to abatement, the city must maintain 24 months of rental interruption insurance, per the lease agreement. The leased asset meets our criteria for seismic risk during the life of the obligations. Based on our review of the lease agreement, we consider the lease provisions standard, per our criteria.

The city plans to apply the proceeds of the estimated $7.9 million lease revenue bonds, along with issue premium and the debt service reserve established for the 2010 bonds, to refund its 2010 bonds. The 2020 bonds will mature in 2031, one year sooner than the 2010 bonds were set to mature.

Credit overview

The credit profile reflects the affluent city's high income levels, rising property values, and robust sales tax revenue stream. Manageable expenditure growth, related to the built-out city's low population growth, has supported consistent operating surpluses and, along with strong management, enabled the city to accumulate extremely strong reserves. The city's debt load is low, as it has been able to fund most capital projects on a pay-as-you-go basis in recent years. Operating from a position of financial strength, the city has prudently over-funded required payments and accumulated reserves dedicated to funding its pension and other postemployment benefit (OPEB) obligations.

In particular, the rating reflects the city's:

- Very strong 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;
- Very strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with a high available fund balance in fiscal 2019 of 92% of operating expenditures;
- Very strong liquidity, with total government available cash at 2.6x total governmental fund expenditures and 238.7x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 1.1% of expenditures and net direct debt that is 38.7% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 85.4% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

Thousand Oaks, with a 2018 population of approximately 130,682, is located in Ventura County, about 40 miles northwest of Los Angeles, and within the Oxnard-Thousand Oaks-Ventura, CA MSA, which we consider to be broad and diverse. The city is home to a diverse array of employers and the tax base is not concentrated, in our opinion. The top 10 taxpayers account for just 9% of total assessed value (AV) for 2020.

The city's wealth and income levels are high, with projected per capita effective buying income 174% of the U.S. level. Though the city is substantially developed--management reports the city is about 98% built out for residential development--total market value continues to increase. Market value rose 3.4% in 2019, to $34.7 billion in 2020, equivalent to $267,506 per capita.

The city is home to the headquarters of the multinational bio-tech firm Amgen. It is also home to over 30 motor vehicle dealers, which are important drivers of the city's overall sales tax revenue, which account for about 47% of general fund revenue. Ventura County's unemployment rate was 3.8% in 2018.

Given its location and current and evolving climate conditions, the city is exposed to various environmental risks, including wildfires. The city's location within the Conejo Valley and the presence of housing and other development within the urban-wildland interface exposes the city and its tax base to losses related to wildfires. The city has experienced several wildfires over the past 15 years, but these events have not materially eroded the city's overall credit quality, nor its economic or financial metrics.

Strong management

We view the city's management as strong, with good financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable. Elements of the city's financial policies and practices include:

- Line-item budgeting that incorporates five years of historic financials and external consultant reports to inform budgeting and forecasting of tax receipts;
- Monthly reporting to city council on budget-to-actual performance;
- Maintenance of a 10-year financial strategic plan and fiscal sustainability study, updated approximately every five years, presented to city council, and used in budget preparation and to guide financial and capital planning;
- A biennially updated five-year capital improvement plan that includes identified funding sources for planned projects;
- An investment policy that is adopted by the city council annually, and monthly reporting by management to the council on investment portfolio holdings and earnings;
- A detailed debt policy that includes specific limitations and reporting requirements;
- A formal policy requiring maintenance of reserves of at least 20% of budgeted expenditures for the general fund, with other required amounts for certain other funds.

Very strong budgetary performance

The city's track record of positive operating results is an important credit strength. By our calculations, the city posted operating surplus equal to 14.8% of general fund expenditures in fiscal 2019, 10.2% in fiscal 2018, and 13.7% in fiscal 2017. Across all governmental funds, the city posted an 11.7% surplus in fiscal 2019, up from 5.6% in fiscal 2018, and 4.2% in fiscal 2017.

With both sales and property tax revenue trending higher than budgeted in fiscal 2020, management expects to post another year of surpluses in fiscal 2020. One source of expenditure pressure for the city is its rising public safety expenditures, which account for 42.0% of fiscal 2019 general fund expenditures. Public safety expenditures increased at a rate of 3%-5% per year over the past three fiscal years. Thus far, tax revenue growth has been sufficient to offset these rising expenditures, and we expect the city will likely maintain its very strong budgetary performance.

Very strong budgetary flexibility

The city's robust tax revenue streams, manageable expenditure growth, and strong financial management practices have contributed to the accumulation and maintenance of fund balances we consider extremely strong. The city's available fund balance of $68.8 million at fiscal year-end 2019 equated to 91.8% of that year's general fund expenditures. Given the city's track record of operating surpluses and manageable expenditure growth, we expect fund balances will likely remain above 75% of general fund expenditures.

Very strong liquidity

In our opinion, Thousand Oaks' liquidity is very strong. The city's $275.9 million in total government available cash equaled 2.6x total governmental fund expenditures and 238.7x governmental debt service in 2019. Given its track record of accessing capital markets through different financing programs, we consider the city's access to external liquidity exceptional.

Very strong debt and contingent liability profile

In our view, Thousand Oaks' debt and contingent liability profile is very strong. Total governmental fund debt service was just 1.1% of total governmental fund expenditures in fiscal 2019. The city's direct debt, net of about $8.0 million in self-supporting debt, equaled 38.7% of total governmental fund revenue. We consider the city's overall net debt low, at 0.8% of market value. The city's outstanding direct debt is set to amortize rapidly, with 85% of direct debt scheduled to be repaid within 10 years.

The city and its related entities have entered into several private placements. Based on our review, we do not consider these obligations as posing contingent liquidity risk to the city.

Pension and other post-employment benefit (OPEB) highlights:

- Given the city's prudent funding practices, robust balance sheet, and consistent operating surpluses, we believe the city is well positioned to manage rising pension costs related to its unfunded pension and OPEB liabilities. Accordingly, we do not consider pension and OPEB funding a source of credit pressure for the city.
- The city has a relatively large net pension liability of about $69.9 million. However, we do not consider pension funding to be a source of credit pressure for the city, given the city's consistent practice in recent years of over-funding its actuarially determined contributions. In addition, the city has accumulated about $23.9 million in a Section 115 pension rate stabilization fund, which we anticipate will mitigate credit pressure related to rising required payments in the coming years.
- Though the city's OPEB liability is just 66.1% funded, we consider the outstanding liability of $8.6 million manageable, given the city's balance sheet and operating performance. The city has capped monthly maximum OPEBs at $435 per employee, which we expect will help limit OPEB expenditure growth. The city has been over-funding its required OPEB contributions by about $300,000 to $500,000 per year in recent years, and the city expects to fully fund its OPEB liability within the next 10-15 years.

The city participates in the following plans:

- California Public Employees' Retirement System (CalPERS) agent multiple-employer defined benefit pension plan: 76.8% funded, with a city net pension liability of $69.7 million, as of June 30, 2018.
- City of Thousand Oaks' single-employer defined benefit pension plan: 93.7% funded, with a net pension liability of $224,000, as of June 30, 2019. The city expects to fully fund this plan's liability by June 30, 2020.
- California Employer's Retiree Benefit Trust Fund, an agent multiple-employer defined benefit healthcare plan administered by CalPERS: 66.1% funded, with a city net OPEB liability of $8.6 million as of June 30, 2018.

Thousand Oaks' combined required pension and actual other postemployment benefits (OPEB) contributions totaled 8.1% of total governmental fund expenditures in 2019. Of that amount, 6.0% represented required contributions to pension obligations, and 2.2% represented OPEB payments. The city made 124% of its annual required pension contribution in 2019.

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 expectation that Thousand Oaks' wealthy tax base and strong financial management practices will enable the city to maintain fund balances and operating results that support the current rating. The stable outlook indicates that we do not expect to raise or lower the rating within the two-year outlook horizon.

Downside scenario

Although unexpected, if multiple credit factors materially worsen, we could lower the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2019 Update Of Institutional Framework For U.S. Local Governments

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

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.