

# RatingsDirect®

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## Summary:

# Escondido, California; Appropriations; General Obligation

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## Summary:

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### Credit Profile

#### Escondido GO

*Unenhanced Rating*

AA-(SPUR)/Stable

Upgraded

## Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) to 'AA-' from 'A+' on Escondido, Calif.'s existing general obligation (GO) bonds, based on its local GO criteria released Sept. 12, 2013. At the same time, we raised our long-term ratings to 'A+' from 'A' on the Escondido Joint Powers Financing Authority's lease revenue bonds, supported by Escondido, and on the city's existing appropriation debt. The outlook is stable for all bonds.

An unlimited ad valorem property tax pledge secures the GO debt. Lease payments from the city secure the appropriation debt.

The rating reflects our assessment of Escondido's:

- Adequate economy, with a projected per capita effective buying income at 82.1% of the nation and market value per capita of \$82,183. Escondido is in northern San Diego County, approximately 30 miles north of San Diego and 20 miles east of Encinitas. The city has access to the San Diego metropolitan area. The city's top employers tend to be in the government or education sectors, with Palomar Medical Center as the leading employer. The city has a stable population of approximately 148,095. In 2013, the county's unemployment rate was 7.5%, according to the Bureau of Labor Statistics, lower than the state (8.9%) and around the national (7.4%) unemployment rates.
- Very strong budgetary flexibility, with reserves at 23.4% of general fund expenditures or \$18.4 million for 2013. Fiscal 2014 reflects an estimated available fund balance of 22.4% of general fund expenditures or \$18.4 million.
- Very weak budgetary performance when including vulnerability to sales tax revenue fluctuations. For fiscal 2013, the city posted a 1.4% surplus for the general fund operating results, with a 12.2% deficit for total governmental funds operating results in fiscal 2013. In fiscal 2014, management estimates the general fund will have balanced operations and total governmental fund is estimated to have a 2.9% deficit. The operating budget for 2014-2015 reflects a general fund surplus of 0.1%.
- Very strong liquidity, which supports the city's finances, with total government available cash above 15% of total governmental fund expenditures and above 120% of total governmental fund debt service for fiscal 2013. We believe the city has strong access to external liquidity.
- Strong management conditions with "good" financial management practices under our Financial Management Assessment methodology. This indicates practices exist in most areas, although not all might be formalized or regularly monitored by governance officials. Highlights include a biannual review of the city's budget and the use of an outside service to track quarterly sales tax revenue, which contributes around 40% of the revenues to the general fund. The city maintains a five-year capital improvement plan that is updated annually. Management has a goal of

keeping 15% of revenues in reserves and we understand the city does not have a debt management policy.

- Very weak debt and contingent liabilities profile, with total governmental funds debt service at 9.7% of total governmental funds expenditures, with net direct debt at 113.5% of total governmental funds revenue, and overall net debt at 3.9% of market value is with an amortization rate of 47.8% of debt in the next 10 years. The city is acting as successor agency to the Redevelopment Agency. The successor agency's debt obligations were included in the city's debt and contingent liabilities profile.
- Escondido contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined-benefit pension plan. PERS provides retirement, disability, and death benefits to plan members and beneficiaries. The district made 100% of its required contribution in fiscal 2013 of \$14.2 million, or 11.9% of total governmental expenditures. We understand Escondido does not offer other postemployment benefits.
- We consider the Institutional Framework score for California cities with Federal Single Audit requirement strong.

## Outlook

The stable outlook reflects Standard & Poor's opinion that Escondido's strong unreserved fund balances will likely provide a financial cushion should the city experience any revenue decrease to balance operations. We do not expect to lower the rating within the outlook's two-year period due to our expectation that Escondido will likely maintain what we consider very strong reserves.

Diversification in the economy, coupled with strengthened finances, could lead to a raised rating. Conversely, we could lower the rating with significant decreases in assessed values, coupled with a drawdown in reserves with significant declines in the liquidity profile to below-adequate levels.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

### Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: California Local Governments

Ratings Detail (As Of August 26, 2014)		
Escondido GO bnds (Election of 2004) ser A dtd 08/22/2006 due 09/01/2007-2026 2029 2036		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
Escondido (muni golf course proj) taxable certs of part ser 93		
<i>Long Term Rating</i>	A+/Stable	Upgraded
<b>Escondido Jt Pwrs Fin Auth, California</b>		
Escondido, California		
Escondido Jt Pwrs Fin Auth (Escondido) lse rev rfdg bnds		
<i>Long Term Rating</i>	A+/Stable	Upgraded
<b>Escondido Jt Pwrs Fin Auth (Escondido) lse rfdg (1995 Rfdg)</b>		

<b>Ratings Detail (As Of August 26, 2014) (cont.)</b>		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded
<b>Escondido Jt Pwrs Fin Auth (Escondido) taxable lse rfdg (1995 Rfdg)</b>		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded
<b>Escondido Jt Pwrs Fin Auth 2001 lse rev bnds (Reidy Creek Proj) dtd 04/17/2001 due 09/01/2003-2020 2030</b>		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

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