COUNCIL AGENDA: 12-04-12
ITEM: 3.7(b)

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Dennis Hawkins, CMC
City Clerk

SUBJECT: SEE BELOW

DATE: 11-19-12

SUBJECT: DEBT MANAGEMENT POLICY

RECOMMENDATION

As recommended by the Public Safety, Finance and Strategic Support Committee on September 20, 2012 and outlined in the attached memo previously submitted to the Public Safety, Finance and Strategic Support Committee, adopt a resolution amending City Council Policy 1-15, "Debt Management Policy," to include additional guidance on the use of variable rate debt and short-term borrowing.

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: PUBLIC SAFETY FINANCE AND STRATEGIC SUPPORT COMMITTEE

FROM: Julia H. Cooper

SUBJECT: **DEBT POLICY AMENDMENT**

DATE: November 5, 2012

Approved Alex Gurza   Date 11-8-12

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

It is recommended that the Public Safety, Finance and Strategic Support Committee accept and approve the proposed revisions to the City of San José's Debt Management Policy and direct staff to return to the City Council with the appropriate resolution and amended policy.

OUTCOME

City Council's approval of the proposed revisions to the City's Debt Management Policy will guide the City's issuance of short-term and variable rate debt consistent with the best practices recommended by the Government Finance Officers Association of the United States and Canada.

BACKGROUND

The City of San José Debt Management Policy ("Policy") was approved by the City Council on May 21, 2002. It requires an annual review of the Policy by Finance Department staff and submittal of any proposed changes to the Public Safety, Finance and Strategic Support Committee ("Committee") for their review and subsequent consideration and approval by the entire City Council. This is the first amendment recommended to the Policy since adoption in 2002. This highlights that the City has been well served by the Policy over the last decade even through the financial market disruption beginning in 2008.

ANALYSIS

In response to the referral from the June 19, 2012 City Council meeting, the Finance Department has reviewed the short-term and variable rate borrowing provisions included in the Policy. Finance Department staff conducted a survey review of the Government Finance Officers Association

("GFOA") and the debt policies of San Francisco, Los Angeles, and San Diego. The recommendations below are based on recent amendments to GFOA best practices and City experience. The City's short-term and variable rate policies are generally consistent with our peer cities.

Short-Term Debt

General Provisions Section III.B of the Policy currently provides guidance on the use of short-term borrowing as follows:

> Short-term borrowing, such as commercial paper and lines of credit, will be considered as an interim source of funding in anticipation of long-term borrowing. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing-related costs. Additionally, short-term borrowing may be considered if available cash is insufficient to meet short-term operating needs.

The Policy currently provides broad flexibility in the use of short-term borrowing in terms of the facilities or operating costs to be financed, the source of revenue for repayment, and the amortization period for repayment. The Finance Department recommends amending the Policy to limit the amortization period of short-term debt to the economic or useful life of the project and, unless the City Council determines that extraordinary circumstances exist, must not exceed seven (7) years. The recommendation further requires that a reliable revenue source must be identified for the repayment of the debt at the time of issuance.

Variable-Rate Debt

Debt Issuance Section III.B of the Policy currently provides guidance on the use of variable rate borrowing as follows:

> The City may choose to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities. Such issuance must be consistent with applicable law and covenants of pre-existing bonds, and in an aggregate amount consistent with the City's creditworthiness objectives.

Finance Department staff recommend amending the Policy to reflect GFOA best practices to consider the following:

- The useful life of the project or facility being financed or the term of the project requiring the funding.
- Market conditions:
  - Renewal risk - if the credit provider decides not to renew the credit support and no replacement is identified, the outstanding obligation will need to be repaid in full.
  - Interest rate risk – interest rates may increase significantly depending on the overall financial market conditions.

- Downgrade risk – the credit ratings of the credit provider supporting the debt may be downgraded in the future. To the extent a downgrade occurs, the obligation may become unmarketable.
- Marketability risk – if there is a lack of market demand, the obligation may be tendered and another investor may not be found.

- Overall debt portfolio structure when issuing variable rate debt for any purpose, including but not limited to:
  - Maintaining a reasonable level of variable rate debt as a percentage of the entire portfolio.
  - Business reasons for maintaining variable rate debt.

Guiding Principles

Finance Department staff will continue to provide administrative guidance regarding the appropriateness of issuing short-term and variable rate debt.

Attached is a redline copy of the changes to the Policy for your review and consideration.

EVALUATION AND FOLLOW-UP

The City of San José Debt Management Policy requires an annual review of the Policy by Finance Department staff and submittal of any proposed changes to the Committee for their review and subsequent consideration and approval by the entire City Council. Finance Department staff will continue to evaluate review the Policy on an annual basis and return with any proposed amendments.

PUBLIC OUTREACH/INTEREST

This item will be posted on the City's website for the Committee meeting on November 15, 2012.

☐ **Criterion 1**: Requires Council action on the use of public funds equal to $1 million or greater. **(Required: Website Posting)**

☐ **Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

☐ **Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

COORDINATION

This memorandum was coordinated with the City Attorney's Office.

CEQA

Not a Project, File No.PP10-068 (b), General Procedure & Policy Making.

Julia H Cooper
JULIA H. COOPER
Acting Director of Finance

For questions, please contact Peter Detlefs, Acting Debt Administrator, at (408) 535-7015.

Attachment

CITY OF SAN JOSE, CALIFORNIA

CITY COUNCIL POLICY

TITLE	PAGE	POLICY NUMBER
DEBT MANAGEMENT POLICY	1 OF 5	1-15
	EFFECTIVE DATE	REVISED DATE
	5/21/02	

APPROVED BY COUNCIL ACTION

May 21, 2002, Item 3.3, Resolution No. 70977

POLICY

This Debt Management Policy sets forth certain debt management objectives for the City, and establishes overall parameters for issuing and administering the City's debt. Recognizing that cost-effective access to the capital markets depends on prudent management of the City's debt program, the City Council has adopted this Debt Management Policy by resolution.

DEBT MANAGEMENT OBJECTIVES

The purpose of this Debt Management Policy is to assist the City in pursuit of the following equally-important objectives:

- Minimize debt service and issuance costs;
- Maintain access to cost-effective borrowing;
- Achieve the highest practical credit rating;
- Full and timely repayment of debt;
- Maintain full and complete financial disclosure and reporting;
- Ensure compliance with applicable State and Federal laws.

GENERAL PROVISIONS

I. SCOPE OF APPLICATION

These policies establish the parameters within which debt may be issued by the City of San José, the City of San José Financing Authority, and the City of San José Parking Authority. Additionally, these policies apply to debt issued by the City on behalf of assessment, community facilities, or other special districts, and conduit-type financing by the City for multifamily housing or industrial development projects.

The City Council, as a member of Joint Powers Authorities such as the San José-Santa Clara Clean Water Financing Authority, shall take these policies into account when considering the issuance of Joint Powers Authority debt.

Supplemental policies, tailored to the specifics of certain types of financings, may be adopted by the City Council in the future. These supplemental policies may address, but are not limited to, the City's general obligation, lease revenue, enterprise, multifamily housing, and land-secured financings.

II. RESPONSIBILITY FOR DEBT MANAGEMENT ACTIVITIES

The Finance Department shall be responsible for managing and coordinating all activities related to the issuance and administration of debt. The Director of Finance is appointed by the City Manager and is subject to his or her direction and supervision. In accordance with the City Charter, Article VIII, Section 806, the Director of Finance is charged with responsibility for the conduct of all Finance Department functions.

Departments implementing debt-financed capital programs will work in partnership with the Finance Department to provide information and otherwise facilitate the issuance and administration of debt.

A. Debt Management Policy Review and Approval

This policy shall be adopted by City Council resolution, and reviewed annually by the Finance Department to insure its consistency with respect to the City's debt management objectives. Any modifications to this policy shall be reviewed and approved by the Finance and Infrastructure Committee and forwarded to the City Council for approval by resolution.

B. Annual Debt Report

The Finance Department shall prepare an annual debt report for review and approval by the Finance and Infrastructure Committee and the City Council, containing a summary of the City's credit ratings, outstanding and newly-issued debt, a discussion of current and anticipated debt projects, refunding opportunities, a review of legislative, regulatory, and market issues, and an outline of any new or proposed changes to this Debt Management Policy.

C. Debt Administration Activities

The Finance Department is responsible for the City's debt administration activities, particularly investment of bond proceeds, compliance with bond covenants, continuing disclosure, and arbitrage compliance, which shall be centralized within the Department.

III. PURPOSES FOR WHICH DEBT MAY BE ISSUED

A. Long-term Borrowing

Long-term borrowing may be used to finance the acquisition or improvement of land, facilities, or equipment for which it is appropriate to spread these costs over more than one budget year. Long-term borrowing may also be used to fund capitalized interest, costs of issuance, required reserves, and any other financing-related costs which may be legally capitalized. Long-term borrowing shall not be used to fund City operating costs.

B. Short-term Borrowing

Short-term borrowing, such as commercial paper and lines of credit, will be considered as an interim source of funding in anticipation of long-term borrowing. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing-related costs. Prior to issuance of the short-term debt, a reliable revenue source shall be identified to secure repayment of the debt. The final maturity of the debt issued to finance the project shall be consistent with the economic or useful life of the project and, unless the City Council determines that extraordinary circumstances exist, must not exceed seven (7) years. Additionally, short-term borrowing may be considered if available cash is insufficient to meet short-term operating needs.

C. Refunding

Periodic reviews of outstanding debt will be undertaken to identify refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of the refunding. Refundings which are non-economic may be undertaken to achieve City objectives relating to changes in covenants, call provisions, operational flexibility, tax status, issuer, or the debt service profile.

In general, refundings which produce a net present value savings of at least three percent (3%) of the refunded debt will be considered economically viable. Refundings which produce a net present value savings of less than three percent (3%) will be considered on a case-by-case basis. Refundings with negative savings will not be considered unless there is a compelling public policy objective that is accomplished by retiring the debt.

DEBT ISSUANCE

I. DEBT CAPACITY

The City will keep outstanding debt within the limits of the City's Charter and any other applicable law, and at levels consistent with its creditworthiness objectives.

The City shall assess the impact of new debt issuance on the long-term affordability of all outstanding and planned debt issuance. Such analysis recognizes that the City has limited capacity for debt service in its budget, and that each newly issued financing will obligate the City to a series of payments until the bonds are repaid.

II. CREDIT QUALITY

The City seeks to obtain and maintain the highest possible credit ratings for all categories of short- and long-term debt. The City will not issue bonds directly or on behalf of others that do not carry investment grade ratings. However, the City will consider the issuance of non-rated special assessment, community facilities, multifamily housing, and special facility bonds.[1]

III. STRUCTURAL FEATURES

A. Debt Repayment

Debt will be structured for a period consistent with a fair allocation of costs to current and future beneficiaries of the financed capital project. The City shall structure its debt issues so that the maturity of the debt issue is consistent with the economic or useful life of the capital project to be financed.

B. Variable-rate Debt

The City may choose to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities. Such issuance must be consistent with applicable law and covenants of pre-existing bonds, and in an aggregate amount consistent with the City's creditworthiness objectives. When making the determination to issue bonds in a variable rate mode, consideration will be given in regards to the useful life of the project or facility being financed or the term of the project requiring the funding, market conditions, and the overall debt portfolio structure when issuing variable rate debt for any purpose.

C. Derivatives

Derivative products[2] may have application to certain City borrowing programs. In certain circumstances these products can reduce borrowing cost and assist in managing interest rate risk. However, these products carry with them certain risks not faced in standard debt instruments. The Director of Finance shall evaluate the use of derivative products on a case-by-case basis to determine whether the potential benefits are sufficient to offset any potential costs.

IV. PROFESSIONAL ASSISTANCE

The City shall utilize the services of independent financial advisors and bond counsel on all debt financings. The Director of Finance shall have the authority to periodically select service providers as necessary to meet legal requirements and minimize net City debt costs. Such services, depending on the type of financing, may include financial advisory, underwriting, trustee, verification agent, escrow agent, arbitrage consulting, and special tax consulting. The City Attorney's Office shall be responsible for selection of bond counsel and, in those circumstances where the City Attorney's Office determines it to be necessary or desirable,

[1] In most cases, a bond which cannot achieve an investment-grade rating will not be rated at all, because there is little value from a bond-marketing perspective in a below investment-grade rating.

[2] A derivative product is a financial instrument which "derives" its own value from the value of another instrument, usually an underlying asset such as a stock, bond, or an underlying reference such as an interest rate index.

disclosure counsel. The goal in selecting service providers, whether through a competitive process or sole-source selection, is to achieve an appropriate balance between service and cost.

V. METHOD OF SALE

Except to the extent a competitive process is required by law, the Director of Finance shall be responsible for determining the appropriate manner in which to offer any securities to investors. The City's preferred method of sale is competitive bid. However, other methods such as negotiated sale and private placement may be considered on a case-by-case basis.

DEBT ADMINISTRATION

I. INVESTMENT OF BOND PROCEEDS

Investments of bond proceeds shall be consistent with federal tax requirements, the City's Investment Policy as modified from time to time, and with requirements contained in the governing bond documents.

II. DISCLOSURE PRACTICES AND ARBITRAGE COMPLIANCE

A. Financial Disclosure

The City is committed to full and complete primary and secondary market financial disclosure in accordance with disclosure requirements established by the Securities and Exchange Commission and Municipal Securities Rulemaking Board, as may be amended from time to time. The City is also committed to cooperating fully with rating agencies, institutional and individual investors, other levels of government, and the general public to share clear, timely, and accurate financial information.

B. Arbitrage Compliance

The Department of Finance shall maintain a system of record keeping and reporting to meet the arbitrage compliance requirements of federal tax law.

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: PUBLIC SAFETY FINANCE AND STRATEGIC SUPPORT COMMITTEE

FROM: Julia H. Cooper

SUBJECT: **DEBT COMPARISON ANALYSIS**

DATE: November 5, 2012

Approved Alex Gurza Date 11-8-12

COUNCIL DISTRICT: City-Wide

In response to the Committee's request for a comparative debt analysis, the table below presents the amount of outstanding general obligation bond debt and general fund debt for the City of San José as compared to the cities of Los Angeles, San Diego, San Francisco, and Oakland. It should be noted that the table represents the total amount of these types of outstanding debt issued by each city. Each city has its own unique situation represented by assessed property values, need for capital improvements, budgetary constraints, service levels requirements, support for voter-approved financing, or any other host of variables.

Summary of Outstanding Debt

Issuer	General Obligation	General Fund		Total
		Lease Obligations	*Pension Obligations*	
City of Los Angeles[1/]	$ 1,215,615,000	$1,915,230,000	$ -	$ 3,130,845,000
City and County of San Francisco [2/]	1,506,329,987	1,131,148,458	-	2,637,478,445
City of San José [3/]	**481,473,000**	**823,703,000**	-	**1,305,176,000**
City of Oakland[4/ 5/]	247,130,000	319,655,000	387,316,566	954,101,566
City of San Diego [6/]	-	500,547,000	-	500,547,000

1/ Source: Official Statement, City of Los Angeles Tax and Revenue Anticipation Notes 2012A; Lease Obligations include Real Property and Capital Equipment leases, Data as of 6/30/2012.

2/ Source: Official Statement, City and County of San Francisco General Obligation Bonds, Series 2012D and E, Data as of 6/30/2012.

3/ As of June 30, 2012.

4/ Source: Official Statement, City of Oakland Taxable Pension Obligation Bonds, Series 2012, Data as of 6/15/2012; Debt service on the POBs is only for City's closed Police and Fire System and is paid from a voter- approved property tax.

5/ Lease Obligations include one-half of the Oakland-Alameda County Coliseum Authority Lease Revenue Bonds.

6/ Source: Official Statement, Public Facilities Financing Authority of the City of San Diego Lease Revenue Bonds Series 2012A and B, Data as of 6/30/11 and adjusted for GO Bond maturities and July 2012 Lease Obligation refundings.

The table below summarizes the population and general obligation ratings of each of the cities reviewed ranked by population.

Population and Credit Rating Summary

	Population [1/]	Moody's	S&P	Fitch
City of Los Angeles	3,825,297	Aa3	AA-	AA-
City of San Diego	1,321,315	Aa3	AA-	AA-
City of San José	**971,372**	**Aa1**	**AA+**	**AA+**
City and County of San Francisco	812,538	Aa2	AA	AA-
City of Oakland	395,341	Aa2	AA-	A+

1/ California Department of Finance, as of January 1, 2012

Attached to this memorandum is a recent special report released by Fitch Ratings ("Fitch"). The report provides a comparison of the ratings and certain rating criteria of the 40 cities in the State of California rated by Fitch, including but not limited to budgetary information, assessed value, and financial management. The goal of the report was to provide a snapshot of the credit characteristics in light of the apparent causes of the recent bankruptcies of several cities. Moody's Investors Service ("Moody's") and Standard & Poor's ("S&P") produce this data at a national level, but do not compare metrics that are relevant to California cities specifically.

Please contact Peter Detlefs, Acting Debt Administrator, with any questions at (408) 535-7015. Staff from the Finance Department will be available for questions at the November 15, 2012 Public Safety, Finance & Strategic Support Committee meeting.

Julia H Cooper
JULIA H. COOPER
Acting Director of Finance

Attachment

California Cities Snapshot

Revenue Constraints and Rising Costs Will Continue to Pressure Ratings

Special Report

Inside This Report

Related Research

Fitch Publishes Full List of 63 RDA Rating Actions (August 2012)

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Bankruptcies Prompt Programmatic Look: Recent bankruptcies in three California cities prompted Fitch to review the basic credit fundamentals of the 40 California cities it rates. The goal was to take a snapshot of the credit characteristics of the 40 cities in light of the apparent causes of the three bankruptcies. A summary of the overall trends, in addition to the individual rating rationales, is presented in this report.

California-Specific Credit Uncertainties: The economic, political, and revenue raising environment in which California cities operate may increase the gap between strong and weak credits, even as the economy shows signs of stability. Fitch rates 40 of the 482 cities in California, maintaining an average unlimited tax general obligation (ULTGO) rating of 'AA', consistent with Fitch's average ULTGO rating for municipalities nationwide. However, Fitch downgraded nine California cities in 2011 and another three in 2012 for a total of 30% of its California city portfolio over the last 21 months; this compares with 12% of Fitch's general government ratings downgraded in 2011 and 2012 nationally. Of California cities Fitch rates, 12.5% are on Negative Rating Outlook or Watch, compared with 9.5% nationwide.

Rising Compensation Costs; Heightened Focus: Fitch remains concerned about high and rising compensation, particularly when composed largely of pension and other post-employment benefits (OPEB) costs. Fitch expects the tepid recovery to yield only modest revenue growth over the near term, dimming prospects for growing out of structural imbalance. Fitch will place greater emphasis on the labor environment and flexibility in its analysis, as well as broader obstacles to enacting or negotiating changes to pension funding or retiree benefits. This increased emphasis may lead to more significant negative rating actions even if other credit factors remain unchanged. The results of Fitch's labor survey are shown in Appendix B, page 51.

Housing Crash Spotlights Vulnerability: California housing prices were highly volatile during the boom and bust cycle of the past decade. All of the 40 Fitch-rated cities experienced some level of assessed valuation (AV) expansion followed by a decline or softening. While Proposition 13 AV growth restrictions resulted in less severe AV volatility when compared to home prices, it also does not allow for cities to offset AV declines with tax rate increases.

Management Actions Are Key: Cities that have retained high ratings and Stable Rating Outlooks typically began the recession with ample reserves and budget flexibility, coupling moderate use of reserves with plans for long-term structural balance. By contrast, lower rated cities often used more temporary measures during the downturn and, with more limited reserves, remain more vulnerable to budget shocks.

Willingness to Pay Questioned: Fitch believes the recent bankruptcy filings in California and heightened discussions about default raise the question of whether stressed municipalities' historically strong willingness to pay bondholders is eroding. The outcome of current bankruptcy cases may help clarify incentives among various parties in other distressed cities and could lead to increased filings.

State Role Neutral to Negative: Distressed California cities do not benefit from a state fiscal intervention program and some state actions have made it more difficult for cities to maintain financial stability. State aid for cities is generally immaterial; however, the state has reallocated property taxes, in some cases accelerating an already deteriorating financial position.

Assessed valuation (AV): AV refers to the value of a property (and for a city, its total tax "roll"), as determined by an appraisal conducted by the county assessor. In California, the AV is determined annually, as of each Jan. 1, and is the basis for property tax bills for the ensuing fiscal year. For example, property taxes billed and payable for fiscal 2013 are based on AV as of Jan. 1, 2012, capturing full market value changes since Jan. 1, 2011. As a result, there is a significant timing lag between AV changes and resultant property tax revenue fluctuations.

Cities' Macroeconomic Experience Differs Across the State

California is a large, economically diverse state with several significant coastal and inland cities. Between fiscal years 2000 and 2008, statewide AV more than doubled, largely reflecting new residential developments and supporting commercial centers. Between fiscal years 2008 and 2011, statewide AV fell by about 4%. However, the growth and subsequent decline in AV varied widely throughout the state, as shown in Appendix C, page 52.

Substantial AV gains and losses were much more gradual than the often-cited home prices. Due to Proposition 13, AV on a given property may only increase by the lesser of inflation or 2% annually. As new construction is added to the total AV at the sale price and when properties are sold, the AV reflects the sale price. As a result, areas with large-scale new development and significant property turnover experienced a more dramatic rise in AV, as the proportion of their AV with a base year during the boom increased.

Those communities also bore the brunt of the contraction of the construction industry that had previously driven a considerable portion of the economic growth, contributing to some of the large unemployment numbers. For example, construction employment in the Fresno metropolitan statistical area (MSA) dropped to 4.1% of total employment in 2012 from 6.9% in 2007. The loss in construction jobs represented 36% of the net job losses during that period. By contrast, construction job losses accounted for only 19% of the Los Angeles-Long Beach-Santa Ana MSA net losses for the same period.

The urban coastal regions experienced less economic volatility and have, with some exceptions, supported more stable credit quality. For example, home prices declined by about 56% from peak to first-quarter 2012 in inland Sacramento, Riverside, and Fresno counties, according to the S&P/Case Schiller Home Price Index. The more developed coastal counties of Orange (38%), Marin (29%), and San Francisco (24%) experienced less severe declines. Within these sometimes large counties, the price declines were likewise less severe near the coast and urban centers than in the surrounding regions.

While the economic experience is a contributing factor to variance in credit quality, the main drivers of the divide between stronger and weaker credits usually go beyond the differences in underlying economic performance.

Labor Environment Important Measure of Financial Flexibility

Lower Rated Cities Have Struggled to Get Needed Concessions

Many cities found it necessary to seek significant concessions from labor groups as the downturn wore on. Some of these resulted in meaningful ongoing savings. For example, Modesto and San Luis Obispo renegotiated contracts, and San Diego and San Jose were able to negotiate 6% and 10% salary reductions, respectively.

Cities that have been unable or unwilling to seek such concessions have taken measures such as negotiating one- or two-year agreements with furloughs (unpaid days off), deferred pay increases, or other temporary salary reductions. While Fitch views their continued use with some concern, furloughs provide a key component to solving immediate budget deficits. Fitch viewed these strategies as a neutral to positive influence on credit quality as long as furloughs and other temporary measures were accompanied by longer term structural balancing efforts. Fitch has expressed concern about cities that pushed out inevitable labor cost increases while assuming revenue gains would ultimately resolve the problem.

Related Criteria

Tax-Supported Rating Criteria (August 2012)

U.S. Local Government Tax-Supported Rating Criteria (August 2012)

Of particular concern are inflexible multiyear contracts that do not permit layoffs or furloughs and charters or policies that require escalators based on regional compensation comparisons. More highly rated cities have generally shown an ability to manage labor costs and support rising benefit spending, while lower rated credits are struggling with inflexible labor costs that only compound existing credit risks, including already tight financial flexibility and below-average, often fragile economies.

The city of Fresno extended five-year contracts twice, resulting in fiscal years 2013 and 2014 salary increases deferred from fiscal years 2011 and 2012. Furthermore, the contracts include no furlough and no-layoff clauses through fiscal 2014. Without voluntary concessions from the police union, the city was unable to balance its fiscal 2013 budget and may need to borrow from its sewer enterprise. Lynwood is still negotiating with its labor unions for fiscal 2013 concessions. Fitch's ratings on Fresno and Lynwood are among the three lowest of the 40 cities.

Higher Rated Cities Have More Options, Reinforcing the Credit Divide

In addition to greater economic stability, the Fitch-rated cities that have retained high credit quality since the downturn generally had more resources and tools to address budget imbalance. These resources include higher reserve levels, a flexible labor environment, and sophisticated financial management. These higher rated cities were able to use a multipronged, multiyear approach through streamlined or reduced service levels (including a reduction in the work force through layoffs or attrition), labor concessions in the form of salary reductions (with or without furloughs), pension reform (increasing employee pension contributions and new tiers with higher retirement ages and lower multipliers), moderate use of fund balance, and even temporary or permanent tax increases.

Fitch believes this multipronged strategy is more likely to keep options open if further budget balancing is required. For example, the ability to gain short-term concessions and use some fund balance could provide time for longer term planning for structural changes like pension reform or putting a tax increase on the ballot.

Long-Term Balance Often Aided by Pension or OPEB Reform

Many cities have negotiated various changes to pension funding and benefits to help combat growing pension and OPEB costs. Such actions include requiring employees in cities that participate in the California Public Employee Retirement System (CalPERS) to pay a greater portion or the total employee share of the annually required contribution (ARC) and, in rare cases, having the employee assume payment responsibility for a portion of the employer share of the ARC. Many cities have received voter approval for these and other types of pension changes (if required by city charter) or negotiated new tiers for new employees, with higher retirement ages, lower multipliers, and longer periods on which to base retirement payments (the average of three years rather than one peak year, for example).

On Sept 12, 2012 the governor signed pension reform bill (AB 340). The reform applies to all state and local public retirement systems in California except for those of charter cities and the University of California. The law creates a new tier with a higher retirement age and lower benefit multipliers, among other more minor changes. Since the major benefit changes only apply to future employees, there is likely to be little impact to local governments' existing unfunded liability. However, the law also provides in principal that employees pay for half of the normal cost of their retirement. The short-term impact to local governments' annual CalPERS contributions is expected to be moderate; however, over the long term, CalPERS participants should experience slower growth in costs.

For some cities with their own pension systems (generally the larger cities which operate under charter), as opposed to those participating in CalPERS, pension changes have been much more radical, testing the extent of what can legally be unilaterally changed or bargained. For example, Beverly Hills has experimented successfully with buying employees out of their OPEB liabilities. In November 2011, San Jose and San Diego voters approved sweeping pension reform that, while being challenged in court, could portend more dramatic changes to come.

Fitch evaluates an issuer's total carrying costs (the sum of debt service, annual required contribution (ARC) for pensions, and payments towards OPEB) relative to total spending. As a fixed and generally rising burden, pension and OPEB costs have been large contributors to recent budget imbalance. As Fitch continues to monitor its California portfolio (and local governments nationally), it will be placing an increased emphasis on carrying costs.

The downgrades of the city of Los Angeles' ULTGO bonds in November 2009 and again in April 2010 to a below-average 'AA–' illustrate how revenue declines amid rising fixed costs can pressure a city's credit quality. The city's pension and OPEB costs have been key drivers in its projected outyear structural deficits. A fractious political environment, often problematic labor relations, and labor agreement constraints (including binding arbitration and no-furlough clauses) complicate efforts to find long-term structural solutions. Further expenditure control and benefit reform, along with ongoing economic recovery, remain necessary to achieve structural balance. Nevertheless, the 'AA–' ULTGO bond rating recognizes that the city has maintained adequate general fund balances, implemented a number of important cost control measures, is rebuilding its reserves, and continues to explore new budget solutions, against a backdrop of a large, diverse, and relatively stable tax base.

Revenue Raising Is Still Possible Despite Hurdles

California cities operate in a restrictive revenue raising environment. Proposition 13 (adopted in 1979) specifically limits property tax rates to 1% of AV and limits AV growth to the lesser of inflation or 2% for existing properties. Voter approval is required to raise all taxes, and in most cases, fees and user charges must be used for the purpose imposed, limiting cities' ability to raise discretionary revenue.

Nonetheless, several highly rated cities successfully raised temporary or permanent taxes in recent years, achieving required voter approval. A sampling of such actions is listed below:

- San Francisco (real property transfer tax, fiscal 2009 and 2011).
- Pittsburg (temporary sales tax, fiscal 2013–2023).
- Fairfax (sales tax, fiscal 2012).
- Santa Maria (temporary sales tax, fiscal 2013–2021).
- Santa Cruz (sales tax, fiscal 2007).
- Rhonert Park (temporary sales tax fiscal 2011–2016).
- San Rafael (temporary sales tax fiscal 2006–2016).
- Santa Monica (sales tax, fiscal 2011).

Raising taxes may not be a viable option for more economically stressed cities or politically practical for others. This lack of revenue raising ability compounds credit concerns where reserve levels are low and payroll and carrying costs are high. In these cases, the bulk of budget balancing actions must come from cost savings, including compensation reductions.

Fitch expects flat to modestly increasing revenue but even with some revenue growth; rebuilding reserves to robust levels is unlikely particularly for weaker cities given wage pressures, rising benefit costs, and the pressure to restore services. This will leave the weaker cities somewhat more vulnerable than stable, higher rated cities in the event of another revenue shock.

Bankruptcy Outcomes Could Influence Distressed Credits' Willingness to Pay

While Fitch believes the costs of bankruptcy, both financial and reputational, remain high, some may see bankruptcy as a viable option depending on the outcome of current cases.

There are currently three cities with active bankruptcy cases in the state. Fitch does not rate any of them. Mammoth Lakes' impetus for filing for Chapter 9 bankruptcy protection appears to be tied to a specific developer agreement and may not have broader implications except for those cities with similar large-scale agreements. Stockton and San Bernardino are more concerning to Fitch, as in both cases, the reasons for filing for bankruptcy were based on more typical pressures, including weak economic performance, inflexible labor contracts, and high pension and OPEB costs. In addition, in both cases, management suggested that bondholders should contribute to the resolution of the bankruptcies by accepting delayed and perhaps reduced payments rather than significant reductions in labor costs (although San Bernardino's current budget includes the full debt service payment).

Whether these cities are ultimately successful in restructuring their obligations remains to be seen; however, they represent not only a very troubling departure from municipal governments' demonstrated willingness to avoid default on long-term bonded debt but also a specific targeting of bondholders. Fitch does not believe the magnitude of economic and financial problems suffered by Stockton and San Bernardino are common among cities in California, much less those that Fitch rates. Still, Fitch is cognizant of the pressures that led these two cities to bankruptcy and will continue to look for similar warning signs in its analysis of California cities it rates.

State Role is Neutral to Negative

California has an effective mechanism to support school districts that experience financial distress but provides no such assistance for cities. Many states have some form of intervention program that can help turn around financial decline by providing a control board, financial manager, or similar structure. In 2011, the state enacted Assembly Bill (AB) 506, which provides for a mediation process among localities and their stakeholders prior to bankruptcy. Rather than preventing default and bankruptcy, AB 506 may have accelerated their occurrence. While state intervention is not factored into ratings unless the program is invoked and proven effective, Fitch believes credit deterioration can be forestalled for an entity in a state with an effective intervention program.

California provides limited assistance to local governments and has in some ways made cities' attempts to maintain financial stability more challenging. While cities do not get much direct state aid, the state has the ability to reallocate property taxes among units of local governments and has done so on a number of occasions, often to the benefit of school districts (and ultimately the state) and to the detriment of cities and the redevelopment agencies (RDAs) they sponsored.

The most recent redirection by the state involves dissolving RDAs and redistributing their tax increment revenue to cities, counties, and school districts. While this should benefit all three in theory, in reality, many cities had grown to rely to a significant extent on their RDAs to channel excess tax increment funds to basic city infrastructure maintenance needs, such as road repair and street lighting as well as portions of salaries for many city/RDA employees. Few cities Fitch rates relied significantly on RDA funding, but for those with already weak financial profiles, this change may be meaningful and negative. The dissolution of RDAs for some cities weakened their government funds' cash positions and could lead to higher cash flow borrowing needs.

Fitch's May 2012 downgrade of El Monte's lease revenue bonds to 'BB+', Rating Watch Negative, was directly related to RDA dissolution issues. The city relies on tax increment from its RDA to cover a portion of lease payments on its civic center, although the ultimate obligation for lease payments for use and occupancy falls to the general fund. Following dissolution, El Monte expressed concern about the timing and amount of receipts to make the lease payments. The city publicly expressed its intent to draw on the debt service reserve fund (DSRF) rather than honor its covenant to budget and appropriate lease payments from all available funds. The city ultimately received the cash in time to avoid a DSRF draw, and Fitch removed it from Rating Watch in August 2012. However, Fitch remains concerned about its willingness to pay, as reflected in El Monte's 'BBB' Negative Outlook implied ULTGO rating, the lowest of the 40 city ratings. For more information on Fitch's rating actions associated with RDAs, see "Fitch Publishes Full List of 63 RDA Rating Actions (dated August 2012), available on Fitch's web site at www.ftichratings.com.

Fitch Expects Credit Divide to Continue

Fitch expects the economic recovery to continue to be slow, resulting in modest to moderate revenue increases. Fitch believes most of its 40 rated California cities will continue to address the budget pressures resulting from rising costs outpacing rising revenues, although more and more cooperation from labor, and potentially tax payers, may be required.

As the economically stronger regions show more signs of recovery, the economic and fiscal divide is likely to continue. Some cities have taken the opportunity to refocus on cores services, pruning their work forces, and deferring lower priority capital investments, likely putting their credit profile on more sound footing for the long term. For more financially challenged cities, the difficult times are likely to continue as economic growth trails the rest of California and they operate with minimal financial cushions and expenditure flexibility.

Review of Individual Cities

Fitch's portfolio of California city ratings includes a large proportion of cities located in the more economically stable regions of the state. Of the 40 Fitch-rated cities, 34 fall in the 'AA' category, reflecting very strong credit quality, although 16 have experienced downgrades or negative outlooks since 2008.

Commentary and selected statistics on each of the 40 cities Fitch rates are presented on pages 9–48, followed by a summary of key statistics for all 40 shown alphabetically, page 49, and by rating category, page 50. The statistics point to certain trends but also highlight the limitations of quantitative data in the analysis of municipal credit. Therefore, the individual city summaries are meant to provide a snapshot of both qualitative and quantitative credit considerations, as neither alone provides a complete analysis.

Fitch considers overall debt per capita and as a percentage of full value to be moderate among the 40 cities at an average of $4,359 and 3.3%, respectively. Total carrying costs average 20% of spending with a range of 10%–36%. General fund balance levels on average remain strong and, in many cases, have improved in the last three fiscal years. Some of this improvement is due to the implementation in fiscal 2011 of GASB 54, which recategorized fund balance and caused some consolidation of funds into the general fund. Declines in AV appear to be moderating, and unemployment rates have improved somewhat.

Individual data points for some cities may seem inconsistent with their ratings. For example, Beverly Hills, whose ULTGO rating is 'AAA', has overall debt per capita of $16,518, the highest among the cities. However, debt to full value is quite moderate at 2.7%, owing to the wealth of residents and the city's substantial commercial tax base.

The city of Oakley, whose 'AA–' ULTGO rating is slightly below average, has among the lowest levels of carrying costs, in contrast to San Jose, rated 'AA+' with among the highest. Carrying costs, in some cases, may be overstated because they use only general fund spending in the denominator, while some debt service, pension, and OPEB costs may be attributable to other funds. Fitch uses this calculation because it is more conservative than one that uses governmental fund or government wide spending in the denominator.

Fitch-Rated California Cities

Click below to navigate to city summary:

Anaheim
Arcadia
Beverly Hills
Corte Madera
El Monte
El Paso De Robles
Fairfax
Fresno
Gilroy
Glendale
Hayward
Lodi
Long Beach
Los Angeles
Lynwood
Manhattan Beach
Menlo Park
Modesto
Newport Beach
Oakland
Oakley
Pasadena
Pico Rivera
Pittsburg
Riverside
Rocklin
Rohnert Park
Sacramento
San Diego
San Francisco (City & County)
San Jose
San Juan Capistrano
San Luis Obispo
San Rafael
Santa Cruz
Santa Maria
Santa Monica
Vista
West Hollywood
Yuba City

Rating History: ULTGO

Rating	Action	Outlook/ Watch	Date
AA+	Assigned	Negative	8/20/12

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Negative	8/20/12
AA	Affirmed	Stable	2/14/11
AA	Revised	Stable	4/30/10
AA–	Assigned	Stable	11/13/08

Unrestricted Fund Balance as % of FY11 General Fund Spending: **7.8%**

Unemployment Rate

(%)

	July 2012	July 2011
Anaheim	10.2	11.7
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Affirms Anaheim, CA Lease Rev Bond Ratings; Negative Outlook on GO bonds (August 2012)

Fitch Rates Anaheim Public Finance Authority, CA Rev Bonds, Series 2012A 'AA-'; Outlook Stable (July 2012)

Analyst
Shannon Groff
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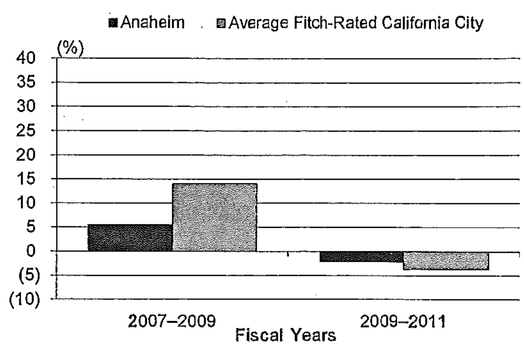
shannon.groff@fitchratings.com

Anaheim

The 'AA+' ULTGO bond rating reflects Anaheim's improving revenues, adequate financial performance, conservative budgeting practices, stabilizing tourism-dependent economy, and manageable debt burden. Revenues are diverse but economically sensitive. Hotel and sales tax revenues increased significantly each of the last two years through fiscal 2012 after two years of declines, while property tax revenue remained fairly flat through the downturn. The city's economy is dependent on tourism, largely centered on The Walt Disney Company, which recently completed over $1 billion in renovations of its California Adventure park. Debt levels are moderate and are not expected to change in the near term due to a lack of general fund-financed capital needs. While general fund cash declined by over half to an adequate $13.7 million at fiscal year-end 2011, the general fund has access to $85 million in borrowable internal funds.

AV Change

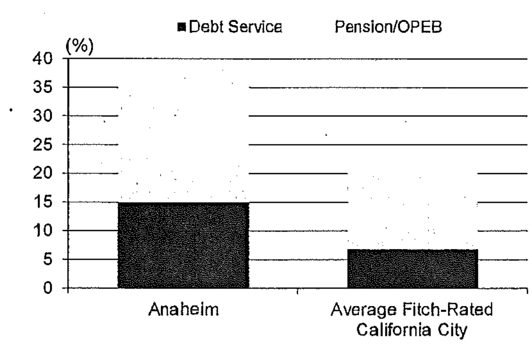


Sources: City of Anaheim and Fitch.

Fitch expresses concern over general fund reserves that remain below historical levels despite recovery in sales and hotel tax receipts and a return to structural balance. Fitch expects the city to maintain balanced operations through its continued prudent practice of conservative budgeting (again evident for fiscal 2013, with flat to minimal revenue growth projections) and its history of expenditure controls, successful negotiation of labor concessions, and closed other post-employment benefit (OPEB) plan, combined with the city's expectation to establish a second tier pension plan. However, Fitch is concerned about the city's ability to restore greater levels of financial flexibility, a key credit offset to its reliance on economically sensitive revenue and somewhat concentrated and below-average economic base. A lack of demonstrated progress in the near term will likely result in a downgrade.

Fixed Costs as % of Spending

(As of June 30, 2011)



Sources: City of Anaheim and Fitch.

Rating History: ULTGO

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	5/6/11
AA+	Revised	Stable	4/30/10
AA	Affirmed	Stable	2/17/09
AA	Affirmed	Stable	9/2/05
AA	Assigned	Stable	4/16/01

Unrestricted Fund Balance as % of FY11 General Fund Spending: **56%**

Unemployment Rate

(%)

	July 2012	July 2011
Arcadia	6.8	7.6
California	10.7	11.9
U.S.	8.3	9.1

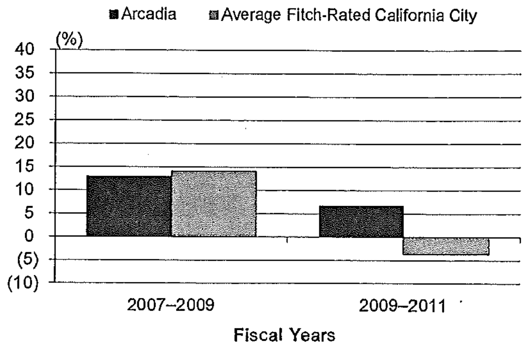
Related Research

Fitch Affirms Arcadia, CA's GO Bonds at 'AA+'; Outlook Stable (May 2011)

Arcadia

Arcadia's 'AA+' ULTGO bond rating reflects its consistently strong financial performance and high reserve levels, with unreserved fund balances averaging 50% of general fund spending. The underlying economy and tax base has outperformed the region, as demonstrated by below-average unemployment rates, above-average income levels, and consistently positive AV growth. The debt burden is low to moderate, capital needs are minimal, and fixed costs for debt service, pensions, and OPEB are manageable at 13% of budget.

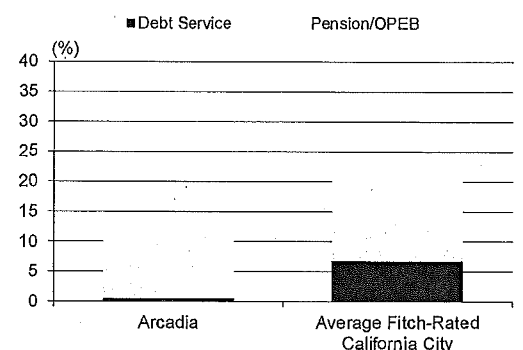
AV Change



Sources: City of Arcadia and Fitch.

Fiscal pressures have been moderate given the city's above-average economic performance. Budgetary balance and surplus operations over fiscal years 2011 and 2012 were largely achieved through expenditure cuts, including staff reductions, with minimal service level effect, as layoffs or furloughs were not needed. Overall financial flexibility and liquidity are strong, as demonstrated by unreserved fund balances, which have averaged 50% of spending. Fitch views the city's multiyear employee contracts negotiated in 2011 as a credit positive, as they include benefit reforms that are slowing the rise of city pension and healthcare costs and temper salary increases over the three-year contract period. The city budgets biennially (2012–2014), and Fitch believes the city's expectation for a sound budget is realistic given the positive performance in fiscal 2012 and strengthening local economy.

Fixed Costs as % of Spending
(As of June 30, 2011)



Sources: City of Arcadia and Fitch.

Analyst
Bernhard Fischer
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Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	3/28/12
AAA	Affirmed	Stable	7/16/10
AAA	Affirmed	Stable	11/6/09
AAA	Affirmed	Stable	3/12/08
AAA	Assigned	Stable	12/29/06

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	3/28/12
AA+	Affirmed	Stable	7/16/10
AA+	Affirmed	Stable	11/6/09
AA+	Affirmed	Stable	3/12/08
AA+	Upgraded	Stable	12/29/06
AA	Assigned	Stable	3/3/03

Unrestricted Fund Balance as % of FY11 General Fund Spending: **44%**

Unemployment Rate

(%)

	July 2012	July 2011
Beverly Hills	8.3	9.3
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Rates Beverly Hills Pub Fin Auth, CA 2012 Lease Revs 'AA+'; Outlook Stable (March 2012)

Fitch Rates Beverly Hills Public Financing Authority, CA's 2010 Lease Revs 'AA+'; Outlook Stable (July 2010)

Analyst
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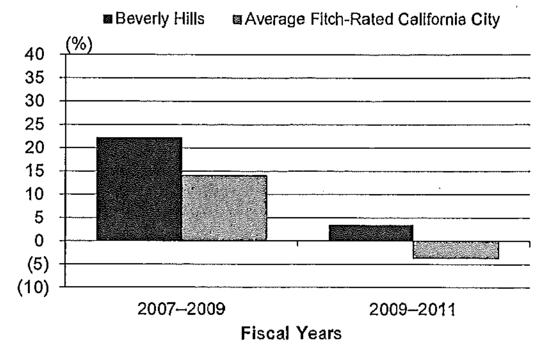
Beverly Hills

The 'AAA' ULTGO bond rating reflects Beverly Hills' strong, diverse, and mature economic base, a tax structure that captures much of the city's economic activity, solid financial reserves, thorough financial management, and an affordable debt burden that amortizes swiftly. The city's moderate vulnerability to economically sensitive sales and transient occupancy taxes and significant constraints on new development are offset by its successful balancing of revenues and expenditures, including head count rationalization, an innovative program to buy down OPEB liabilities, and implementation of a second pension tier for safety personnel. The city is poised to report surplus operations again in fiscal 2012, and reserves remain high.

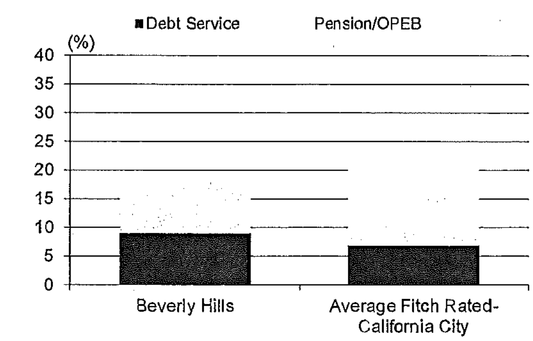
AV Change



Sources: City of Beverly Hills and Fitch.

Multiyear general fund expenditure control will remain key given upward pressure from the city population's high service expectations, future wage and benefit pressures, and the increasing need for general fund support of the city's parking authority and clean water fund, both of which are currently structurally imbalanced. Fitch expects the city's financial operations to remain strong due to its solid economic fundamentals, above-average socioeconomic profile, and exceptionally high taxable assessed valuation (AV). Revenue assumptions for the city's five-year forecast appear conservative, as they are below recent performance. Labor negotiations are under way, and Fitch notes the city's proactive approach to expenditure management in an effort to further improve its already strong overall financial flexibility.

Fixed Costs as % of Spending
(As of June 30, 2011)



Sources: City of Beverly Hills and Fitch.

Corte Madera

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
A	Assigned	Negative	6/19/12

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
BBB+	Downgraded	Negative	6/19/12
A	Affirmed	Stable	6/22/10
A	Revised Rating	Stable	4/30/10
BBB+	Affirmed	Stable	3/13/09
BBB+	Assigned	Stable	8/22/06

Unrestricted Fund Balance as % of FY11 General Fund Spending: **6.2%**

Unemployment Rate

(%)

	July 2012	July 2011
Corte Madera[a]	6.7	7.8
California	10.7	11.9
U.S.	8.3	9.1

[a]July 2011/2012 Marin County unemployment rates.

Related Research

Fitch Downgrades Corte Madera, CA's COPS to 'BBB+'; Outlook Revised to Negative (June 2012)

Fitch Affirms Corte Madera, CA's COPS at 'A'; Outlook Stable (June 2010)

Analyst
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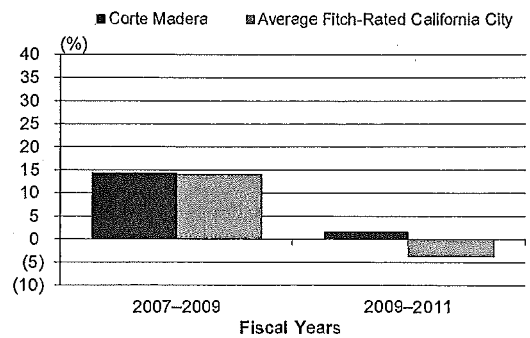
matthew.reilly@fitchratings.com

Corte Madera's ULTGO 'A' rating reflects the interplay between a fundamentally small but strong economy and weak financial profile. Located in Marin County about 12 miles north of San Francisco, the town's economy is characterized by above-average wealth levels, a relatively low unemployment rate, access to a large and diverse labor market, and a stable tax base. However, the town's financial profile is weak, with low general fund balances, a recent trend of operating deficits followed by a modest surplus in fiscal 2011, a growing negative fund balance in the Park Madera enterprise fund, and reliance on external borrowing to meet cash flow needs.

AV Change

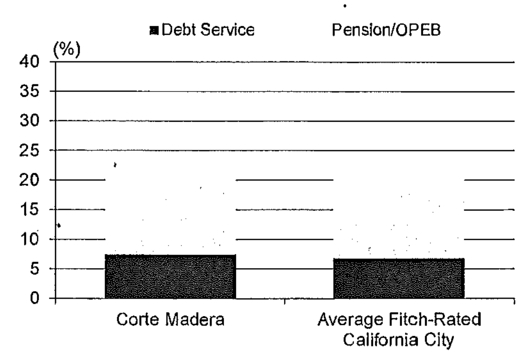


Sources: Town of Corte Madera and Fitch.

The Negative Rating Outlook reflects Fitch's concerns regarding historically poor financial performance and the growing negative fund balance in the Park Madera fund. While the city's general fund financial performance improved in fiscal 2011 due to both rebounding revenues and management's actions to reduce spending, including obtaining significant concessions from labor groups on pension contributions, the negative balance in the town's Park Madera enterprise fund is likely to continue increasing and, thereby, further pressure the town's liquidity position and overall financial profile. Labor contracts that expire at the end of fiscal 2014 somewhat limit the town's expenditure flexibility, although management reports contracts require employees to make annually increasing pension contribution amounts without additional salary increases or clauses limiting layoffs or furloughs. Finally, the town serves as a regional retail center, and sales tax receipts comprise the single largest source of general fund revenue; hence, the pace and extent of the economic recovery will significantly affect the town's financial performance.

Fixed Costs as % of Spending

(As of June 30, 2011)

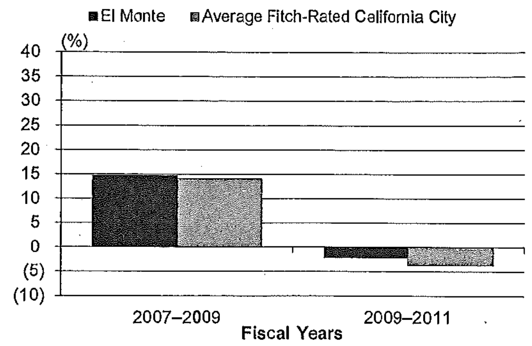


Sources: Town of Corte Madera and Fitch.

El Monte

The 'BBB' implied ULTGO bond rating reflects El Monte's mature and resilient tax base, a currently adequate financial position, a property tax override levied in perpetuity used to offset the city's pensions costs, and the city's location within the large and diverse regional Los Angeles employment market. These strengths are offset by the city's weak local economy, concerns about management's shifting commitment to adhere to the city's lease revenue bond indenture covenants, and poor financial disclosure practices. The city serves a population of 125,000 and is located about 12 miles east of Los Angeles. Both unemployment and income levels are quite weak. The city's mature tax base has held up well during the recession, rising modestly in fiscal years 2013 and 2012 following a one-time 2.1% contraction in fiscal 2011.

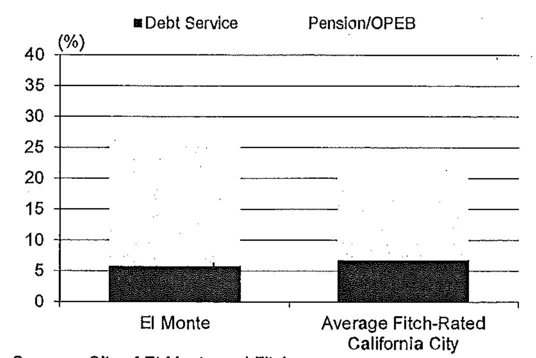
AV Change



Sources: City of El Monte and Fitch.

The city's reserve levels and overall financial position are currently adequate, and management estimates balanced operations in fiscal 2012. Fitch remains concerned about the city's lagging disclosure, as evidenced in the publication of its fiscal 2011 audit about 10 months after the close of the year and current fiscal 2013 operations being governed by a 60-day interim budget. The city council has yet to adopt the final budget, although the proposed budget reportedly is balanced. Fitch is concerned about further financial deterioration in fiscal 2014, with deferred wages due based on closed labor contracts that run through fiscal 2015, expiration of a five-year ½ cent sales tax measure, and longer term rising pension costs. Fitch views achieved labor concessions (including a two-tier pension system) as a credit positive and potential sign of continued future flexibility, which could mitigate forthcoming budgetary pressures if expanded.

Fixed Costs as % of Spending
(As of June 30, 2011)



Sources: City of El Monte and Fitch.

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
BBB	Affirmed	Stable	8/20/12
BBB	Assigned	Negative[a]	5/2/12

[a]Rating Watch.

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
BB+	Downgraded	Negative[a]	5/2/12
A–	Assigned	Stable	12/1/10

[a]Rating Watch.

Unrestricted Fund Balance as % of FY11 General Fund Spending: **17%**

Unemployment Rate
(%)

	July 2012	July 2011
El Monte	14.6	16.2
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Downgrades El Monte, CA's Lease Revs to 'BB+'; Rating Watch Negative (May 2012)

Fitch Rates El Monte Public Financing Authority, California Revs 'A-' (December 2010)

Analyst
Scott Monroe
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Rating History: ULTGO

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	6/25/12
AA	Affirmed	Stable	7/14/10
AA	Revised	Stable	4/30/10
AA–	Affirmed	Stable	6/1/07
AA–	Upgraded	—	5/23/00
A+	Assigned	—	7/1/99

Unrestricted Fund Balance as % of FY11 General Fund Spending: **41%**

Unemployment Rate

(%)

	July 2012	July 2011
El Paso De Robles	10.1	11.5
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Affirms El Paso De Robles, CA's $30MM GOs at 'AA'; Outlook Stable (June 2012)

Fitch Affirms El Paso De Robles, California's GO Bonds at 'AA'; Outlook Stable (July 2010)

Analyst
Barbara Ruth Rosenberg
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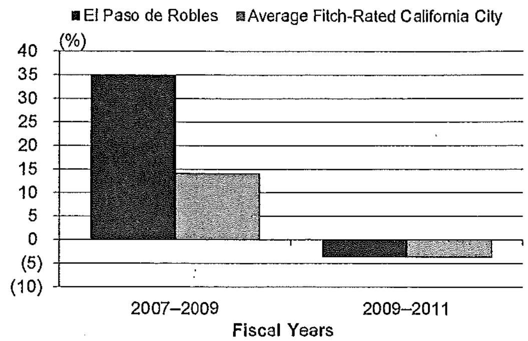
El Paso de Robles

El Paso de Robles' 'AA' ULTGO bond rating reflects the city's limited economy, reinstituted structural balance, solid reserve levels, and favorable debt position. The economy is underpinned by agriculture, a tourism industry supported by well-regarded wineries, and some small manufacturing concerns, producing wealth levels below regional and national averages. The revenue base relies significantly on elastic sales and lodging taxes, although the area's attractiveness has provided a certain degree of resiliency. Expenditure reductions and recent revenue upticks have restored the city's positive operating margins. The city projects small annual increases to its already health reserve levels during its five-year financial forecast.

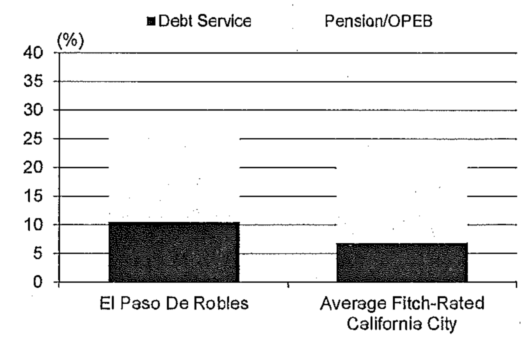
AV Change



Sources: City of El Paso de Robles and Fitch.

Labor reductions have played a noteworthy role in the city's ability to realize budgetary stability. The city has achieved a majority of its annual savings by reducing general fund personnel by 35%, mainly through early retirement incentives. Overall salaries and wages have declined around 9% in the past two fiscal years, with an additional 5% reduction budgeted in fiscal 2013. Public safety employees have seen even slightly larger reductions through fiscal 2012, with an additional 8% decline budgeted for the upcoming year. The city recently negotiated with public safety personnel to assume payment of their pension contribution, reducing a currently high metric. Fitch believes the city is well positioned to maintain budgetary balance and a solid financial cushion.

Fixed Costs as % of Spending
(As of June 30, 2011)



Sources: City of El Paso de Robles and Fitch.

Rating History: ULTGO

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	9/7/11
AA+	Affirmed	Stable	9/22/11
AA+	Revised	Stable	4/30/10
AA	Affirmed	Stable	10/23/09
AA	Affirmed	Stable	6/20/06
AA	Assigned	Stable	5/29/02

Unrestricted Fund Balance as % of FY11 General Fund Spending: **41%**

Unemployment Rate

(%)

	July 2012	July 2011
Fairfax[a]	6.7	7.8
California	10.7	11.9
U.S.	8.3	9.1

[a]July 2011/2012 Marin County unemployment rates.

Related Research

Fitch Affirms Town of Fairfax, CA GOs at 'AA+'; Outlook Stable (September 2012)

Fitch Affirms Town of Fairfax, CA GOs at 'AA+'; Outlook Stable (September 2011)

Analyst
Stephen Walsh
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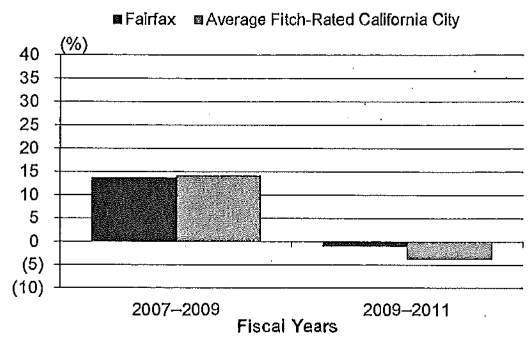
Fairfax

The 'AA+' ULTGO bond rating reflects Fairfax's strong financial position, wealthy and resilient tax base, and low debt burden. The town's financial cushion has nearly doubled over recent years, and management reports continued improvement for fiscal years 2011 and 2012 based on higher than budgeted sales tax receipts and one-time state reimbursements. Fairfax voters approved a half-cent sales tax in November 2011, and property taxes, comprising the largest share of general fund revenues, have remained fairly stable supported by flat AV performance. Wealth indicators for this small residential community remain above 150% of national averages, and overlapping debt levels are low at 2% of AV.

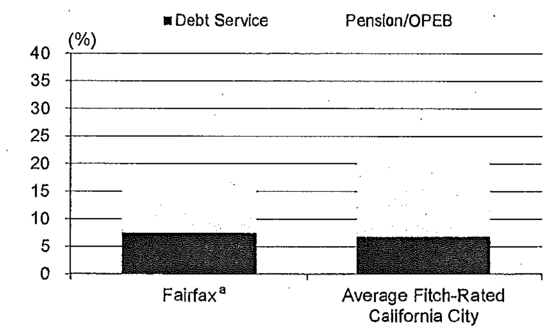
AV Change



Sources: Town of Fairfax and Fitch.

Fairfax reduced personnel expenses for fiscal years 2012 and 2013 by keeping several positions vacant and increasing pension contributions for the town's 28 employees whose contracts expire in fiscal 2013. The town participates in a state-sponsored pension plan and has regularly made its annual required contribution. OPEB liabilities are manageable at less than 0.1% of AV. Fitch expects the town to maintain stable operations over the next several years due to continued strong performance of the local tax base, as well as the recent sales tax increase.

Fixed Costs as % of Spending
(As of June 30, 2011)



[a]Debt service, pension, OPEB, and other spending numbers are calculated from fiscal 2010 data. Sources: Town of Fairfax and Fitch.

Fresno

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
A-	Downgraded	Negative	7/2/12
A	Downgraded	Stable	8/1/11
AA	Revised	Stable	4/30/10
AA–	Affirmed	Stable	2/3/09
AA–	Affirmed	Stable	7/29/08
AA–	Affirmed	Stable	4/25/08
AA–	Affirmed	Stable	3/26/08
AA–	Assigned	Stable	3/19/04

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
BBB+	Downgraded	Negative	7/2/12
A-	Downgraded	Stable	8/1/11
AA-	Revised	Stable	4/30/10
A+	Affirmed	Stable	2/3/09
A+	Affirmed	Stable	7/29/08
A+	Affirmed	Stable	3/26/08
A+	Affirmed	Stable	1/25/08
AAA	Affirmed	Negative[a]	12/12/07
AAA	Affirmed	Stable	4/21/04
A+	Assigned	Stable	3/19/04

[a]Rating Watch.

Unrestricted Fund Balance as % of FY11 General Fund Spending: **0.5%**

Unemployment Rate
(%)

	July 2012	July 2011
Fresno	13.8	15.3
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Downgrades Fresno California GOs to 'A-', Lease Revs to 'BBB+' (July 2012)

Fitch Downgrades Fresno Joint Powers Fin Auth, CA's Lease Revs to 'A-' from 'AA-'; Outlook Stable (August 2011)

Analysts
Andrew Ward
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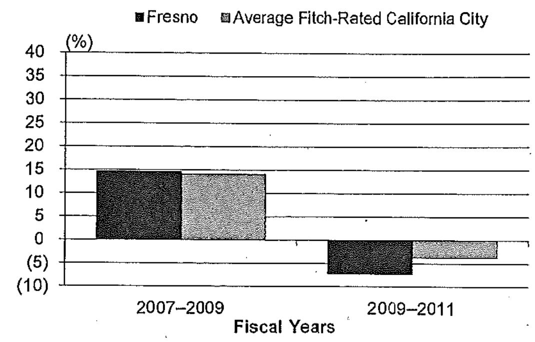
The 'A–' implied ULTGO rating is the lowest for a major city in California, reflecting ongoing financial stress with very low general fund reserves, rising labor costs, and deficit borrowing. Fresno, the most populous city in the Central Valley, was hit hard by the economic downturn. Long-term labor contracts limited management's ability to realign expenditures with declining revenues in the aftermath of the recession, weighing on the rating. The rating also reflects the city's willingness to cut spending, competent financial management, available internal liquidity to finance expected deficits, a large, diverse tax base, a slowly improving economy, and moderate debt burden. The Negative Rating Outlook reflects Fitch's concern that the city is poorly positioned to absorb any further economic shocks and may need another minor interfund borrowing to support the deficit financing a gain in fiscal 2014 budget.

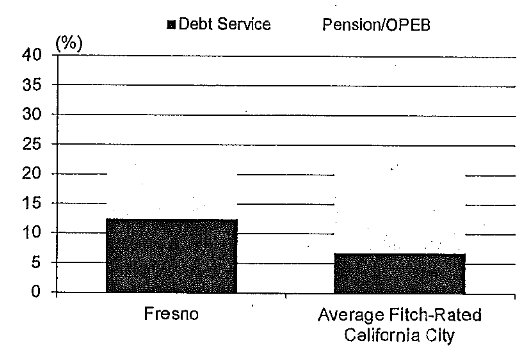
AV Change



Sources: City of Fresno and Fitch.

Labor costs are a major concern for Fresno. Long-term contracts and an acrimonious relationship with the city's police union have prevented a full alignment of expenditures with available revenues. Policymakers budgeted $4.7 million, or about 2% of general fund spending, for labor concessions in fiscal years 2012–2013. The city's police agreed to the compensation cuts in exchange for contract extensions. Management refused and has decided to borrow from other funds to finance deficit spending until the contract expires in 2015. The city will borrow $4.1 million from its sewer fund to finance the current-year deficit. While Fresno faces short-term deficits and vulnerability to further shocks, management's strategy should eventually allow it to realign expenditures and revenues, regaining structural budget balance after several years of painful efforts.

Fixed Costs as % of Spending
(As of June 30, 2011)



Sources: City of Fresno and Fitch.

Rating History: ULTGO

Rating	Action	Outlook/ Watch	Date
AA–	Affirmed	Stable	6/19/12
AA–	Affirmed	Stable	7/6/10
AA–	Revised	Stable	4/30/10
A+	Assigned	Stable	4/8/09

Unrestricted Fund Balance as % of FY11 General Fund Spending: **77%**

Unemployment Rate

(%)

	July 2012	July 2011
Gilroy	13.0	15
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Affirms Gilroy, California's GOs at 'AA-'; Outlook Stable (June 2012)

Fitch Rates Gilroy, CA's General Obligation Bonds 'AA-'; Outlook Stable (July 2010)

Analyst
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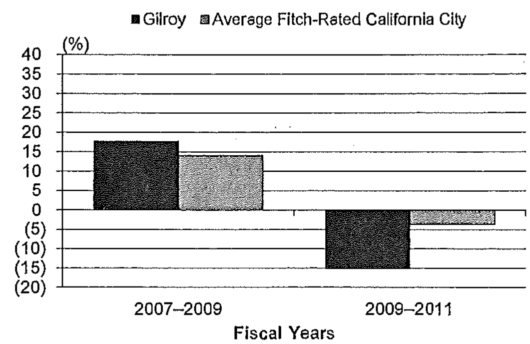
Gilroy

The 'AA–' ULTGO bond rating is largely supported by Gilroy's strong financial management, including high fund balances, conservative fund balance policies, and active management to align expenses with revenues. Finances have been balanced through substantial expenditure cuts implemented to offset recent years' sales and property tax revenue declines. The city's residential real estate market has been highly stressed in recent years, but price stabilization, recently reduced foreclosure rates, and AV performance (flat in 2012 following two years of declines) suggest the market is showing signs of stabilization. The city's economic characteristics are weak, including high unemployment and below-average income levels relative to the region. Total net debt levels are high, and amortization of debt is very slow.

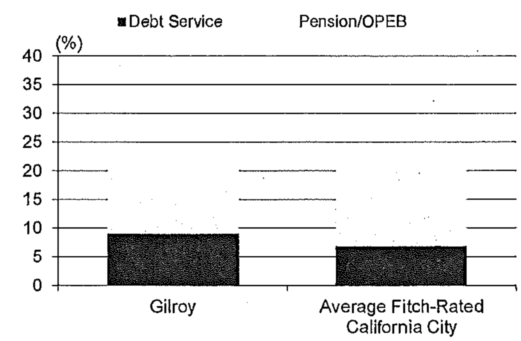
AV Change



Source: City of Gilroy and Fitch.

Management cut spending, reduced headcount, and successfully obtained labor concessions, resulting in additional savings. The city experienced revenue strengthening in fiscal 2012, which is expected to continue into fiscal 2013, with property tax collections stabilizing and sales taxes showing good growth. Most labor contracts are set to expire on June 30, 2013. The Police Officers Association contract expired on June 30, 2012, and the new contract negotiated in June 2012 allowed for a 2% salary increase, boosting expenditures by about $170,000. Fitch expects the city's long-standing financial management policies will continue to support positive operations over the near term. The city expects to end fiscal years 2012 and 2013 with modest surpluses but high ending balances at about 70% of spending (on a budgetary basis).

Fixed Costs as % of Spending
(As of June 30, 2011)



Source: City of Gilroy and Fitch.

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
AA+	Assigned	Stable	10/31/11

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	10/31/11
AA	Revised	Stable	4/30/10
AA–	Affirmed	Stable	11/9/09
AA–	Affirmed	Stable	9/13/05
AA–	Assigned	Stable	6/29/00

Unrestricted Fund Balance as % of FY11 General Fund Spending: **38%**

Unemployment Rate

(%)	July 2012	July 2011
Glendale	10.4	11.6
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Affirms Glendale Financing Authority, California's COPs at 'AA'; Outlook Stable (October 2011)

Analyst
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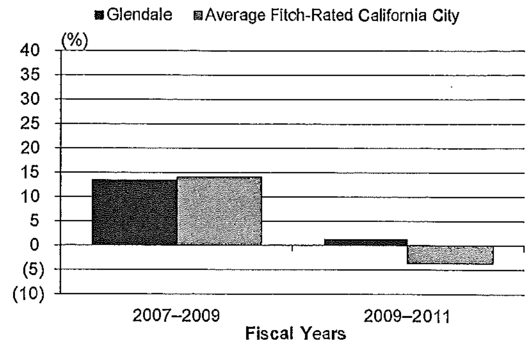
matthew.reilly@fitchratings.com

Glendale

Glendale's ULTGO 'AA+' rating reflects its strong financial profile with high fund balances and solid, though pressured, financial performance; low overall debt burden with no additional planned debt issuance; and a stable and diverse tax base. Glendale is the third largest city in economically diverse Los Angeles County and benefits from its participation in the broad regional labor market, as well as the diverse range of local employment sectors, including a large presence of the entertainment and healthcare industries. However, the local economy appears to be recovering slowly, with limited employment growth; wealth indicators are mixed, with above-average per capita income and below-average median household income.

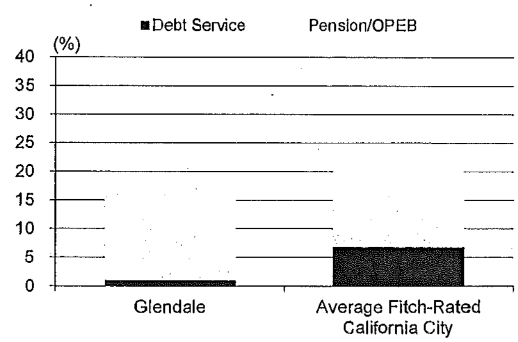
AV Change



Sources: City of Glendale and Fitch.

Fitch expects the city to maintain its healthy general fund balance over the near term while continuing to reduce expenditures to close a financial imbalance created through declining revenues and rising costs. Despite relatively stable property and sales tax receipts, management projects an operating deficit in fiscal 2012 of approximately $3.1 million and a significant budget gap in fiscal 2013 due to rising costs and the absorption of additional costs from the elimination of redevelopment agencies. Fitch believes the city's planned spending cuts focused on early retirements, layoffs, and program reductions appear achievable given management's reported progress implementing early retirements and reducing the city's work force. Labor contracts expire in various years through fiscal 2015 and require the city to negotiate furloughs but generally require additional concessions to offset pay increases; employees already cover a portion of the city's pension costs.

Fixed Costs as % of Spending
(As of June 30, 2011)



Sources: City of Glendale and Fitch.

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
AA+	Assigned	Stable	8/7/12

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	8/7/12
AA	Affirmed	Stable	8/11/10
AA	Revised	Stable	4/30/10
AA–	Assigned	Stable	7/13/07

Unrestricted Fund Balance as % of FY11 General Fund Spending: **25%**

Unemployment Rate

(%)

	July 2012	July 2011
Hayward	10.6	12.2
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Affirms Hayward, CA $26MM COPs at 'AA'; Assigns Implied GO of 'AA+'; Outlook Stable (August 2012)

Fitch Affirms Hayward, California's COPs at 'AA'; Outlook Stable (August 2010)

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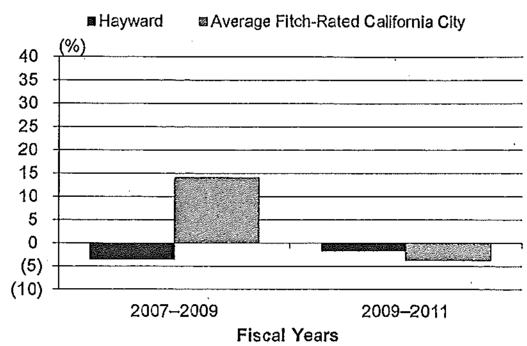
barbara.rosenberg@fitchratings.com

Hayward

The 'AA+' implied ULTGO bond rating largely reflects Hayward's commitment to resolve near-term structural imbalances while maintaining financial flexibility. Sharply curtailed expenses, sustained revenue enhancements, and one-time balancing measures enabled the city to uphold solid reserve levels. City officials have indicated they are committed to eliminating the operational portions of the outyear gaps in the upcoming fiscal year, and Fitch believes the city's strong financial management should support success in this area. The city's limited commercial base is offset by participation in the San Francisco Bay's diverse employment opportunities. Socioeconomic indicators are mixed compared with national averages. Overall debt levels are expected to remain moderately low.

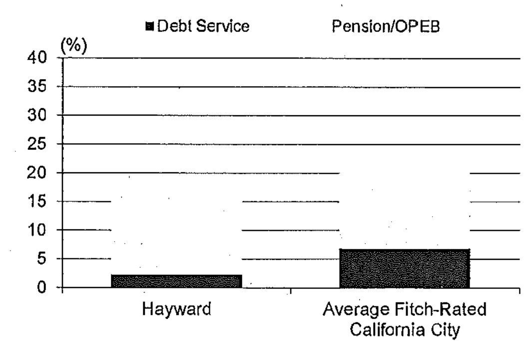
AV Change



Sources: City of Hayward and Fitch.

Labor concessions have been a key component to the city's response to its financial pressures. The city and its employees agreed upon stringent cost containment measures through fiscal 2012, including wage concessions and furloughs. The fiscal 2013 budget reflected a slight increase in salaries and wages due to the city's decision not to reinstitute furloughs, although additional pension and retirement concessions were achieved. Rising pension costs included in the city's forecasts have the potential to pressure the credit long term. In Fitch's view, an inability to match recurring revenues to expenditures by fiscal 2014 could indicate a systemic degree of financial pressure inconsistent with the current rating.

Fixed Costs as % of Spending
(As of June 30, 2011)



Sources: City of Hayward and Fitch.

Lodi

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
AA	Assigned	Stable	8/1/11

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
AA–	Affirmed	Stable	8/1/11
AA–	Revised	Negative	4/30/10
A+	Affirmed	Negative	2/11/10
A+	Affirmed	Negative	10/8/08
A+	Upgraded	Stable	6/26/08
AA–	Downgraded	Negative	4/4/08
AAA	Affirmed	Negative[a]	2/5/08
AAA	Affirmed	Stable	1/16/08
AAA	Affirmed	Negative[a]	12/20/07
AAA	Upgraded	Stable	1/29/02
A+	Assigned	Stable	12/17/01

[a]Rating Watch.

Unrestricted Fund Balance as % of FY11 General Fund Spending: **14%**

Unemployment Rate

(%)

	July 2012	July 2011
Lodi	11.5	13.4
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Affirms Lodi, CA COPs at 'AA-'; Outlook Revised to Stable (August 2011)

Analyst
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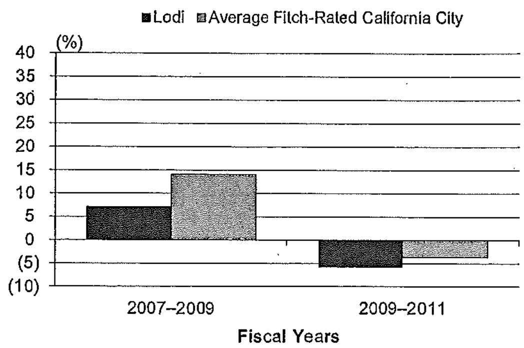
Lodi's 'AA' implied ULTGO rating reflects the city's solid financial position, including sound reserve levels, prudent structural spending reductions resulting in anticipated future balance to surplus operations, recent pension reforms, and a strong board-approved minimum fund balance policy that management expects to meet over the next few years. The city was hard hit during the housing-led recession, yet outperformed the region due in part to a long-standing cap on new growth. Signs of economic stabilization are appearing, with significantly lower home foreclosure rates, home price stabilization, high, yet falling, unemployment, and the recent addition of major sales tax generators. The city's debt profile is sound overall, with a low debt burden, manageable capital needs, and no plans for further debt issuances. However, principal amortization is slow.

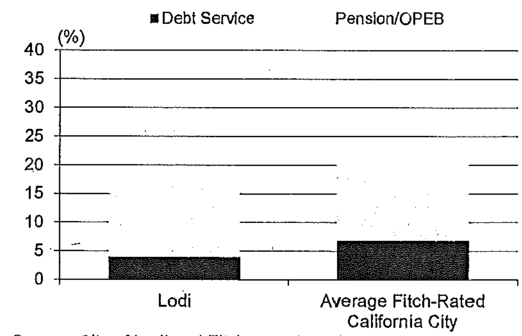
AV Change



Source: City of Lodi and Fitch.

The city's growth cap somewhat mitigated the revenue effects of the housing-led recession, while management prudently enacted expenditure reductions and benefit reforms that appear to have stabilized financial operations at solid levels. Fitch expects financial operations will remain sound given historically prudent management practices and a record of successful labor negotiations that have resulted in meaningful one-time and ongoing concessions. These include workers paying the full employee cost of their pensions, a second pension tier, and a cap on city-paid health benefits. Liquidity and fund balances stand at sound levels, and general fund operations in fiscal 2013 are budgeted as balanced, though Fitch believes recent revenue outperformance and budgeting conservatism may result in an operating surplus.

Fixed Costs as % of Spending
(As of June 30, 2011)

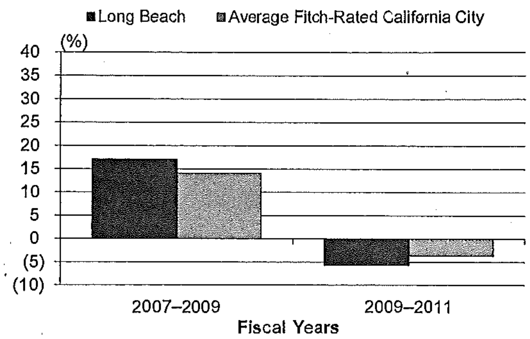


Source: City of Lodi and Fitch.

Long Beach

Long Beach's ULTGO 'AA' rating reflects its sound general fund unrestricted reserves and solid financial performance; demonstrated ability to reduce expenditures to match recurring revenue levels; diverse, albeit economically sensitive, revenue base; moderate overall debt burden with no additional planned issuance; and relatively stable property tax base. It is the seventh largest city in the state and second largest in economically diverse Los Angeles County and benefits from local economic drivers, including the Port of Long Beach, as well as the broad regional labor market. Recent indicators point to a slow economic recovery, with limited employment growth and wealth levels below the county and national average.

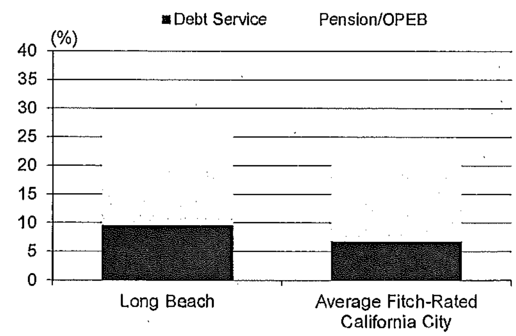
AV Change



Sources: City of Long Beach and Fitch.

Fitch expects the city to continue making difficult decisions to reduce spending levels to match recurring revenues and, thereby, close projected budget gaps over the next few years. The city has successfully achieved concessions from some labor groups, requiring employees to pay their share of employee pension contribution costs, but Fitch expects financial flexibility may be challenged due to an ongoing lawsuit and the recent rejection of pension reform measures by the city's largest labor group. Existing contracts expire periodically through 2015 and include relatively modest automatic pay increases and do not limit layoffs. The city's revenue base is diverse but reliant on economically sensitive revenue streams that may pose additional challenges to balancing the budget if revenues fail to meet expectations.

Fixed Costs as % of Spending
(As of June 30, 2011)



Sources: City of Long Beach and Fitch.

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	8/22/12
AA	Assigned	Stable	7/25/11

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	8/22/12
AA–	Affirmed	Stable	7/25/11
AA–	Revised	Stable	4/30/10
A+	Affirmed	Stable	9/9/09
A+	Affirmed	Stable	8/30/07
A+	Affirmed	Stable	9/25/06
A+	Affirmed	Negative	9/10/04
A+	Affirmed	Negative	10/17/03
A+	Affirmed	Negative	9/26/03
A+	Upgraded	Stable	5/23/00
A	Assigned	Stable	1/9/98

Unrestricted Fund Balance as % of FY11 General Fund Spending: **13%**

Unemployment Rate
(%)

	July 2012	July 2011
Long Beach	13.1	14.5
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Affirms Long Beach (CA) Lease Revenue Bonds at 'AA-'; Outlook Stable (August 2012)

Fitch Affirms Long Beach (CA) Lease Revenue Bonds at 'AA-'; Outlook Stable (July 2011)

Analyst
Matthew Reilly
+1 415 732-7572
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Rating History: ULTGO

Rating	Action	Outlook/ Watch	Date
AA–	Affirmed	Stable	6/14/12
AA–	Revised	Stable	4/30/10
A+	Downgraded	Stable	4/16/10
AA–	Downgraded	Negative	11/24/09
AA	Affirmed	Negative	7/22/09
AA	Affirmed	Negative	4/1/09
AA	Affirmed	Stable	8/7/08
AA	Affirmed	Stable	7/22/05
AA	Affirmed	Positive	7/20/05
AA	Assigned	Stable	4/6/05

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
A+	Affirmed	Stable	6/14/12
A+	Affirmed	Stable	6/8/10
A+	Revised	Stable	4/30/10
A	Downgraded	Stable	4/16/10
A+	Downgraded	Negative	11/24/09
AA–	Affirmed	Negative	4/1/09
AA–	Affirmed	Stable	8/7/08
AA–	Affirmed	Stable	7/22/05
AA–	Affirmed	Positive	7/20/05
AA–	Assigned	Stable	4/6/05

Unrestricted Fund Balance as % of FY11 General Fund Spending: **11%**

Unemployment Rate

(%)

	July 2012	July 2011
Los Angeles	13.1	14.6
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Rates Los Angeles, CA 2012 TRANs 'F1+'; Affirms Outstanding Bonds (June 2012)

Fitch Rates Los Angeles, CA's GOs 'AA-' and Lease Revs 'A+'; Outlook Stable (March 2012)

Fitch Rates Los Angeles, CA's GOs 'AA-' and TRANs 'F1+'; Affirms Outstanding Bonds (June 2011)

Analyst
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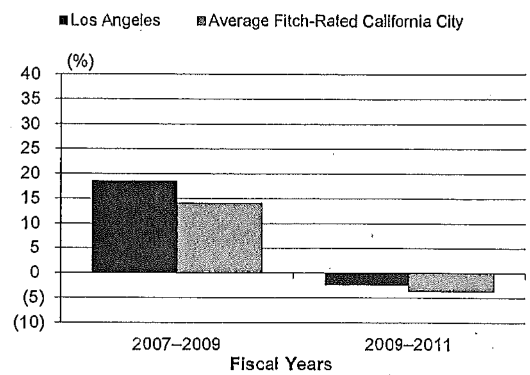
Los Angeles

The 'AA–' ULTGO bond rating reflects the counterbalance between Los Angeles' inherent importance as the commercial and cultural center of a very large, diverse economy and the challenging financial, political, and labor relations environment in which it operates. The city maintains adequate reserves, can access considerable borrowable resources, maintains an affordable bonded indebtedness profile, and has taken significant budgetary actions in response to economic contraction and personnel-related expenditure pressures. Fiscal 2011 posted the first general fund operating surplus (after transfers) in some years, and fiscal 2012 estimates reportedly are on budget. The city continues to rebuild reserves that do not yet meet its own minimum policy goal, and general fund liquidity remains tight. However, key general fund revenues are performing positively, and the property base is starting to recover.

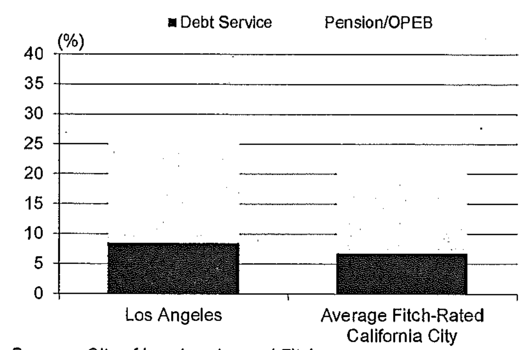
AV Change



Sources: City of Los Angeles and Fitch.

Fitch expects current revenue and property base stabilization to continue into fiscal 2013. However, the likely slow rebound of tax revenues, the property market, and employment will constrain the budget going forward. The city faces a mid-fiscal 2013 deficit and deficit projections for fiscal years 2014–2017 of 4.5%–6.5% of spending, indicating a significant ongoing structural imbalance in the general fund. Fitch expects the city will be challenged to continue balancing its budget annually given the fractious political environment, sometimes contentious relations with labor, and labor agreement constraints, including binding arbitration and no-furlough clauses. Nevertheless, Fitch recognizes that the city maintained adequate general fund balances throughout the economic downturn, implemented a number of important cost control measures that significantly reduced prior structural imbalance projections, and, by declaring a fiscal emergency for fiscal 2013, gave itself additional expenditure flexibility by extending limited furloughs and suspending certain financial contributions.

Fixed Costs as % of Spending
(As of June 30, 2011)



Sources: City of Los Angeles and Fitch.

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
BBB+	Downgraded	Negative	7/13/12
A–	Assigned	Stable	7/18/11

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
BBB	Downgraded	Negative	7/13/12
BBB+	Downgraded	Stable	7/18/11
A	Affirmed	Negative	6/1/10
A	Revised	Stable	4/30/10
BBB+	Affirmed	Stable	3/24/09
BBB+	Assigned	Stable	8/4/03

Unrestricted Fund Balance as % of FY11 General Fund Spending: **19%**

Unemployment Rate

(%)

	July 2012	July 2011
Lynwood	18.6	20.5
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Downgrades Lynwood Public Finance Authority, CA's Lease Revs to 'BBB'; Outlook to Negative (July 2012)

Fitch Downgrades Lynwood Public Finance Authority, CA's Lease Revs to 'BBB+'; Outlook Stable (July 2011)

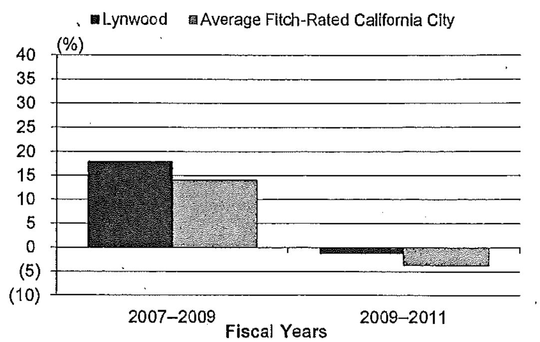
Fitch Affs Lynwood Public Finance Authority, CA's Lease Revs at 'A'; Outlook Revised to Negative (June 2010)

Analyst
Karen Ribble
+1 415 732-5611
karen.ribble@fitchratings.com

Lynwood

The 'BBB+' implied ULTGO bond rating reflects Lynwood's mature tax base and affordable fixed costs supported by a levy override for pensions. These strengths are offset by Lynwood's weak local economy within greater Los Angeles, structural budget imbalance, and limited financial reserves. The city expects fiscal 2012 results to post another operating deficit (after transfers), keeping the Fitch-adjusted general fund balance in a negative position, although the city reports it has successfully reduced receivables. The city also reports it is able to access liquidity from other funds, including its water fund. While per capita income levels are very low at 43% of the state, median household income levels are somewhat better at 72% of the state level.

AV Change

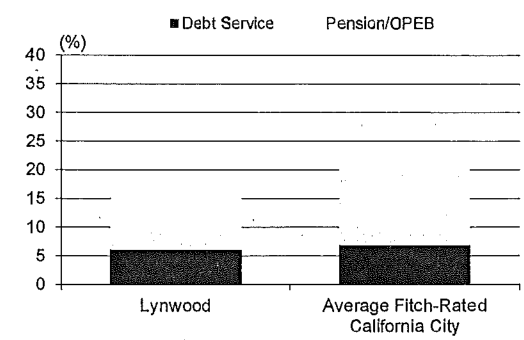


Sources: City of Lynwood and Fitch.

The Negative Rating Outlook reflects Fitch's concern about the city's low reserve position and its ability to close the current and future year budget deficits given Fitch's expectation for slow revenue growth. The city contracts for fire and police services with the county, insulating it somewhat from escalating public safety costs. Contracts with its two labor unions have expired, but management reports it is close to achieving additional concessions to balance its fiscal 2013 budget. However, management reports that additional requested concessions, which would enable the city to add to reserves, are unlikely in the current fiscal year. Layoffs and additional concessions in future years will likely be needed for longer term budget balance. Use of additional reserves in fiscal 2013 or inability to close its structural budget gap with ongoing solutions would likely result in negative rating action.

Fixed Costs as % of Spending

(As of June 30, 2011)



Sources: City of Lynwood and Fitch.

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	7/22/11
AAA	Affirmed	Stable	10/2/09
AAA	Affirmed	Stable	10/15/04
AAA	Assigned	Stable	11/25/02

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	7/22/11
AA+	Affirmed	Stable	10/2/09
AA+	Affirmed	Stable	10/15/04
AA+	Assigned	Stable	11/25/02

Unrestricted Fund Balance as % of FY11 General Fund Spending: **36%**

Unemployment Rate

(%)

	July 2012	July 2011
Manhattan Beach	4.2	4.7
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Affirms Manhattan Beach (CA) COPs at 'AA+'; Outlook Stable (July 2011)

Analyst
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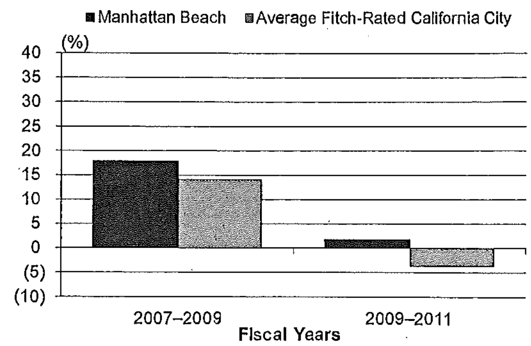
Manhattan Beach

AV Change

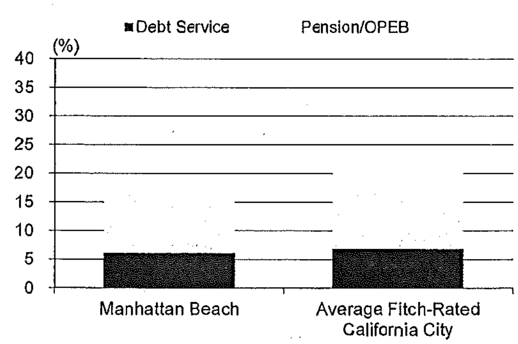


Sources: City of Manhattan Beach and Fitch.

Manhattan Beach's 'AAA' implied ULTGO bond rating reflects its consistently good financial position and sound management practices, healthy liquidity, very strong local economy, and manageable debt burden. The city benefits from a strong and diverse local economy with access to the greater Los Angeles metropolitan area. It has historically exhibited very low unemployment (4.2% as of July 2012) and high income levels, at two to three times state and national levels. AV continued to grow through the economic downturn, albeit at a slower pace. The city continues to exceed its policy to maintain a fund balance equal to 20% of expenditures and an additional $4 million reserve for economic uncertainties in fiscal years 2011, 2012, and 2013, with audited, estimated, and budgeted figures, respectively, exceeding 30%. The city's liquidity is very strong, with a cash balance of $19.6 million and quick ratio of 4.4 at fiscal year-end 2011.

Fixed Costs as % of Spending

(As of June 30, 2011)



Sources: City of Manhattan Beach and Fitch.

Pension costs are elevated, representing 10.0% of general fund spending in fiscal 2011, although total carrying costs (including debt service and retiree healthcare) equaled a moderate 16.9% of spending. Fitch does not expect pension cost pressures to ease in the near term, as the city thus far has not sought labor concessions on pensions or assumed any changes in its fiscal 2013 budget related to contracts expiring Dec. 31, 2012. The city currently pays both the employee and employer pension contribution for miscellaneous and public safety employees. It has prudently set aside funding for its liability related to OPEBs, which has a funded ratio over 100%. Fitch expects the city's financial position to remain strong despite rising pension costs given its moderate overall carrying costs for long-term liabilities, healthy liquidity, robust economy, and limited capital needs.

Rating History: ULTGO

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	4/12/11
AAA	Affirmed	Stable	5/19/09
AAA	Affirmed	Stable	1/17/08
AAA	Assigned	Stable	4/8/02

Unrestricted Fund Balance as % of FY11 General Fund Spending: **43%**

Unemployment Rate

(%)

	July 2012	July 2011
Menlo Park	5.7	6.8
California	10.7	11.9
U.S.	8.3	9.1

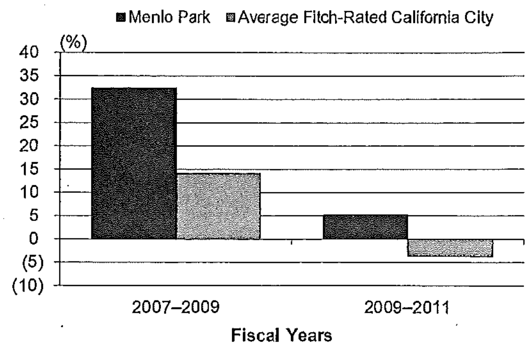
Related Research

Fitch Affirms Menlo Park, CA's GO Bonds at 'AAA'; Outlook Stable (April 2011)

Menlo Park

The 'AAA' ULTGO bond rating reflects Menlo Park's exceptionally strong financial position and tax base, outperforming economy, high wealth and income levels, and capable management. The city's financial cushion remained high in fiscal 2011 even after the prudent use of reserves to pre-fund a portion of its public safety pension costs. Fitch views management's expectation for continued strong results in fiscal 2012 as reasonable given its proven track record of consistently identifying new revenue opportunities and cost-savings strategies to address potential imbalances. The city is located in the heart of Silicon Valley and has benefited from the recent strong performance of the technology sector; wealth and income levels are more than twice the national average.

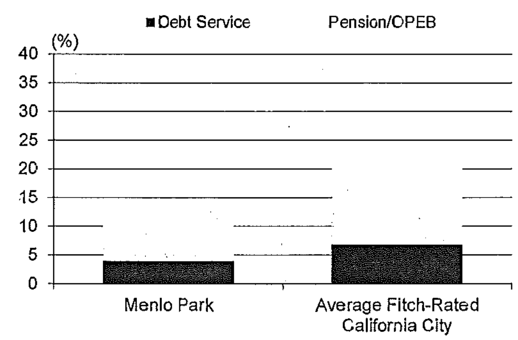
AV Change



Sources: City of Menlo Park and Fitch.

Menlo Park's recent cost-savings efforts have focused on reducing growth in labor expenses, including caps on health insurance contributions, a freeze on salaries and wages, and reduced retirement and post-retirement healthcare benefits for new hires. The city participates in a state-sponsored pension plan and has regularly met or exceeded its annual required contribution. OPEB liabilities are fully funded, and most capital costs are paid from current general fund resources. Additional sources of financial flexibility include an authorized but unimplemented increase to the city's utility users' tax and a proposed increase in the transient occupancy tax to be considered by Menlo Park voters in November 2012. Fitch expects the city to maintain stable operations over the next several years due to its strong local economy and able management.

Fixed Costs as % of Spending
(As of June 30, 2011)



Sources: City of Menlo Park and Fitch.

Analyst

Stephen Walsh
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Modesto

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
AA–	Assigned	Stable	5/9/11

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
A+	Downgraded	Stable	5/9/11
AA–	Revised	Stable	4/30/10
A+	Assigned	Stable	8/5/08

Unrestricted Fund Balance as % of FY11 General Fund Spending: **10%**

Unemployment Rate

(%)

	July 2012	July 2011
Modesto	13.6	14.9
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Affirms Modesto, CA Wastewater Revs at 'AA-'; Outlook Stable (January 2012)

Fitch Affirms Modesto, CA's Wastewater Revenue Bonds at 'AA-'; Outlook Stable (December 2010)

Analyst
Alan Gibson
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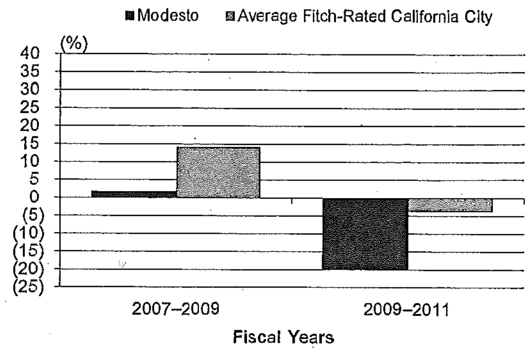
The 'AA–' ULTGO bond rating reflects Modesto's good general fund balances, diversified revenue streams, prudent spending reductions, expenditure flexibility, and proactive actions to reduce pension and OPEB liabilities. Management continues to outperform its $7 million reserves policy, ending fiscal 2011 with an unrestricted general fund balance of $10.7 million, or 10.2% of spending. The rating also recognizes that the city has experienced five years of substantial economic and tax base weakening, severe unemployment (still high at 13.6% in July 2012), below-average socioeconomic indicators, and a distressed property market. The city weathered a harsh 28.7% decline in its TAV in fiscal years 2009–2012, with a further loss of 2.5% projected for fiscal 2013 and a potential further small decline thereafter.

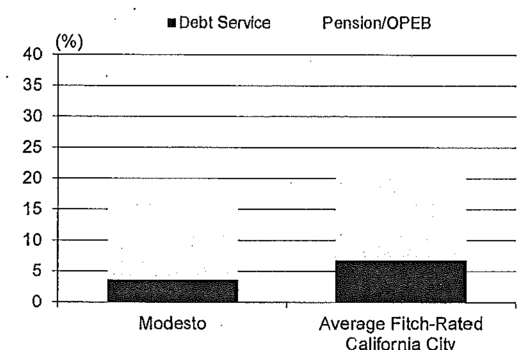
AV Changes



Source: City of Modesto and Fitch.

While the city's debt burden is below average, debt amortization is slow (only 36.7% in 10 years), and the city faces elevated variable-rate exposure and liquidity renewal risk in the future. Although general fund liquidity has tended to be tight since fiscal 2007, the city has not needed to issue short-term debt and, if necessary, could borrow cash available in its internal service funds.

Fixed Costs as % of Spending
(As of June 30, 2011)



Source: City of Modesto and Fitch.

Fitch expects that local property market and socioeconomic characteristics will remain weak for some time given the city's location in the midst of the Central Valley's housing-led recession. Nevertheless, Fitch expects the city will maintain its good unrestricted general fund balance given the city's history of expenditure and position controls, successful negotiation of labor concessions even when contracts have been closed, community consultation regarding spending priorities, and overall financial flexibility. The city's labor contracts do not impose unduly restrictive barriers to staffing flexibility apart from constant fire fighter staffing requirements and binding arbitration for public safety unions, While the fiscal 2013 budget assumes departments do not pay their full pay-as-you-go costs for the workers' compensation and employee benefits funds, Fitch does not anticipate this practice continuing.

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	8/20/12
AAA	Assigned	Stable	10/19/10

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	8/20/12
AA+	Assigned	Stable	10/19/10

Unrestricted Fund Balance as % of FY11 General Fund Spending: **42%**

Unemployment Rate

(%)

	July 2012	July 2011
Newport Beach	5.0	5.8
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Affirms Newport Beach, CA's $126MM COPs at 'AA+' & Implied ULTGO at 'AAA'; Outlook Stable (August 2012)

Fitch Rates Newport Beach, CA COPs 'AA+' & Implied GOs 'AAA'; Outlook Stable (October 2010)

Analyst
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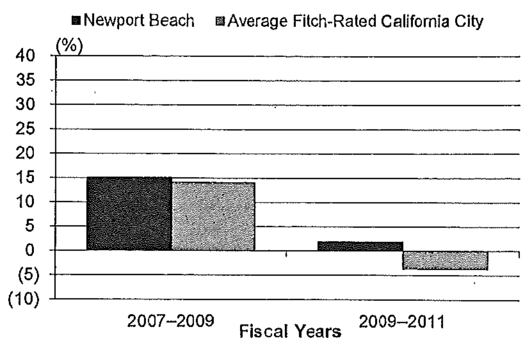
Newport Beach

Newport Beach's 'AAA' implied ULTGO rating reflects the city's consistently strong financial performance and very high reserve levels, with unreserved fund balances averaging over 40% of general fund spending. The underlying economy is above average, with high income levels and very low unemployment rates. Overall city AV has been resilient through the downturn despite declines in residential valuations. The debt burden is low, capital needs are minimal, and fixed costs for debt service, pensions, and OPEB are manageable at 19.6% of budget.

Stabilizing property, sales, and transient occupancy tax revenues, coupled with prudent expense management driven by head count reduction, early retirement incentives, salary adjustments tied to the Consumer Price Index CPI, and benefit concessions, have enabled the city to maintain strong financial performance. City financial management policies and processes are impressive. Fitch views management's commitment to maintaining a sound balance between wages and benefits for its labor units and recently achieved contractual pension concessions with the safety units as a credit positive. Fitch believes the city's expectation for a balanced fiscal 2013 budget is realistic given the surplus operations in fiscal 2012 and inherently strong economic resource base. Fitch expects management to continue to successfully address budgetary pressures, yielding strong financial performance and maintenance of very high reserves.

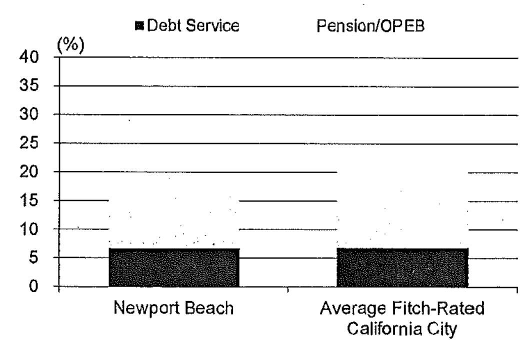
AV Change



Sources: City of Newport Beach and Fitch.

Fixed Costs as % of Spending

(As of June 30, 2011)



Sources: City of Newport Beach and Fitch.

Rating History: ULTGO

Rating	Action	Outlook/ Watch	Date
A+	Affirmed	Stable	8/20/12
A+	Downgraded	Stable	6/9/11
AA–	Affirmed	Stable	6/15/10
AA–	Revised	Stable	4/30/10
A+	Affirmed	Negative	6/22/09
A+	Affirmed	Negative	6/18/09
A+	Affirmed	Stable	4/30/08
A+	Affirmed	Stable	6/15/07
A+	Affirmed	Stable	6/1/06
A+	Affirmed	Stable	5/27/05
A+	Affirmed	Stable	5/20/05
A+	Affirmed	Stable	7/8/03
A+	Assigned	Stable	6/21/02

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
A	Affirmed	Stable	8/20/12
A	Downgraded	Stable	6/9/11
A+	Affirmed	Stable	6/15/10
A+	Revised	Stable	4/30/10
A	Affirmed	Negative	6/22/09
A	Revised Outlook	Negative	6/18/09
A	Assigned	Stable	4/3/08

Unrestricted Fund Balance as % of FY11 General Fund Spending: **21%**

Unemployment Rate

(%)	July 2012	July 2011
Oakland	14.4	16.4
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Affirms Oakland, Calif. GOs at A+; Outlook Stable (August 2012)

Fitch Rates Oakland, CA's TRANs 'F1+'; Downgrades Outstanding Debt (June 2011)

Fitch Rates Oakland, CA's 2011 TRANs 'F1+' (June 2010)

Analyst
Alan Gibson
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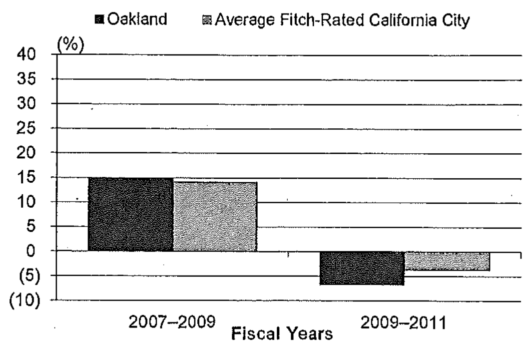
Oakland

The 'A+' ULTGO bond rating reflects Oakland starting to benefit from revenue improvements and a stabilizing property market. While well located as part of the large San Francisco Bay Area economy, the city remains challenged by high unemployment and below-average socioeconomic characteristics. Although the city has a diverse revenue structure, adequate reserves, and a currently manageable debt burden, achieving ongoing general fund balance is complicated by the large proportion of nondiscretionary expenses and a historical overreliance on one-time solutions. Recent revenue improvements have eased immediate pressure on the city's general fund budget and protected current employee head count and service levels. The city's reported fiscal 2011 unrestricted general fund balance equaled a solid 21.4%, despite posting the sixth consecutive year of operating deficits (after transfers). Excluding funds set aside for pensions, the unrestricted fund balance was a much tighter but still adequate at 9.2% of spending.

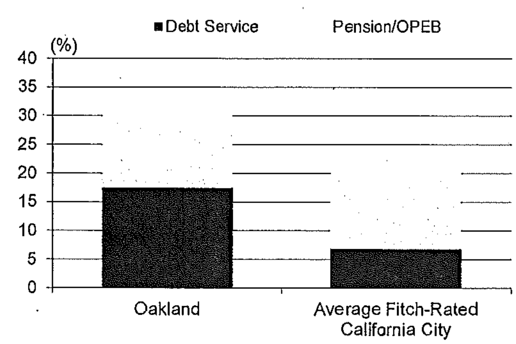
AV Change



Sources: City of Oakland and Fitch.

Fitch expects the city to benefit from important short- and long-term negotiated labor concessions in terms of both near-term budget balancing and constraining longer term liabilities' growth. Nevertheless, significant pension and OPEB liabilities and unmet infrastructure and maintenance needs will continue to impede the achievement of structural balance. The city expects to grow its unrestricted general fund balance to 10.9% of spending in fiscal 2012, excluding funds set aside for pensions, and to achieve a comparable balance for fiscal 2013. While the city's financial position is improving as a result of revenue improvements and labor concessions (including a second pension tier for all new employees), Fitch notes that considerable budget balancing challenges remain, particularly in relation to the city's substantial unfunded pension and OPEB liabilities, potential state drawback of former redevelopment properties (which could be partially offset by redistributed property taxes), and some vulnerability to property valuation appeals.

Fixed Costs as % of Spending
(As of June 30, 2011)



Sources: City of Oakland and Fitch.

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
AA–	Assigned	Stable	6/13/11

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
A+	Downgraded	Stable	6/13/11
AA-	Revised	Stable	4/30/10
A+	Affirmed	Stable	6/20/09
A+	Assigned	Stable	11/30/06

Unrestricted Fund Balance as % of FY11 General Fund Spending: **56%**

Unemployment Rate

(%)

	July 2012	July 2011
Oakley	6.7	7.9
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Downgrades Oakley PFA, CA's COPs to 'A+'; Outlook Stable (June 2011)

Analyst
Matthew Reilly
+1 415 732-7572
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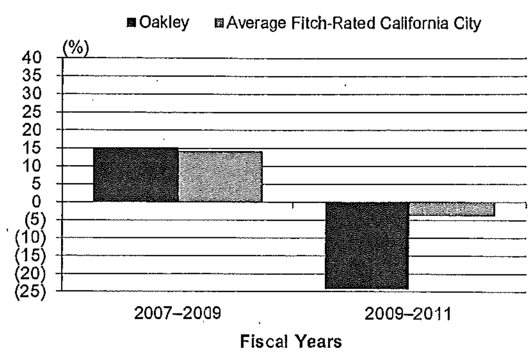
Oakley

The 'AA–' ULTGO rating reflects Oakley's healthy financial profile, inherent financial flexibility due to the lack of unionized labor, stressed tax base with significant reductions in TAV over the past several years, above-average overall debt levels, and mixed local economy. Located in northeastern Contra Costa County, the city of Oakley serves as an exurban bedroom community that offers residents access to both Bay Area and Sacramento labor markets. Economic indicators are mixed, with the city's unemployment rate below the state average and wealth levels generally at or above the national average; however, the stressed local housing market caused a sharp 32% drop in the city's AV from fiscal years 2008–2012.

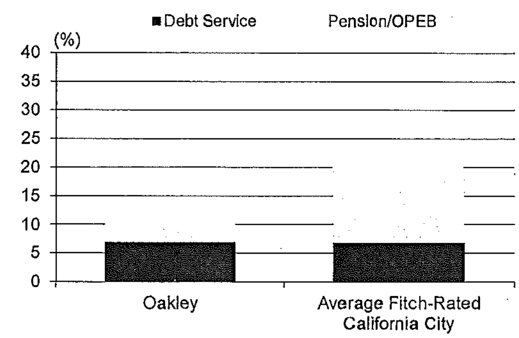
AV Change



Sources: City of Oakley and Fitch.

Fitch expects the city to maintain its healthy financial profile, while the tax base and AV remain pressured by a slow economic recovery and continued stress in the local housing market. The city benefits from an above-average degree of financial flexibility, with no unions or traditional labor contracts. Pension costs are expected to remain manageable, and the city does not provide OPEB. Financial performance in fiscal years 2012 (projected) and 2013 (budgeted) is expected to result in positive operating margins and, thereby, preserve the city's solid unrestricted fund balance position.

Fixed Costs as % of Spending
(As of June 30, 2011)



Sources: City of Oakley and Fitch.

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	3/8/12
AAA	Affirmed	Stable	11/9/10
AAA	Revised	Stable	4/30/10
AA+	Affirmed	Stable	9/9/08
AA+	Affirmed	Stable	7/1/08
AA+	Assigned	Stable	4/15/08

Rating History: Pension Obligations

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	3/8/12
AA+	Affirmed	Stable	11/9/10
AA+	Revised	Stable	4/30/10
AA	Affirmed	Stable	9/9/08
AA	Affirmed	Stable	7/1/08
AA	Affirmed	Stable	4/15/08
AA	Affirmed	Stable	8/18/06
AA	Upgraded	Stable	1/26/05
AA–	Upgraded	Stable	10/18/01
A+	Affirmed	Stable	5/23/00
A+	Assigned	Stable	4/21/93

Unrestricted Fund Balance as % of FY11 General Fund Spending: **20%**

Unemployment Rate

(%)

	July 2012	July 2011
Pasadena	9.1	10.2
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Rates Pasadena, CA's Pension Obligation Bonds 'AA+'; Outlook Stable (March 2012)

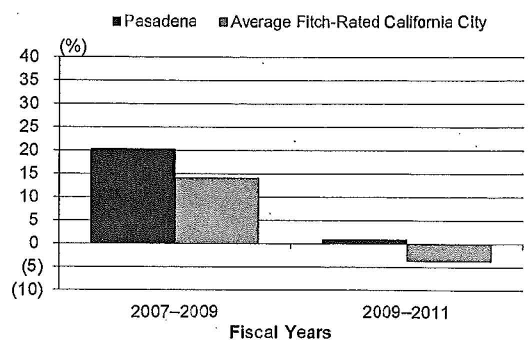
Fitch Rates Pasadena Public Financing Authority, CA's Lease Revs 2010 'AA+'; Outlook Stable (November 2010)

Analyst
Matthew Reilly
+1 415 732-7572
matthew.reilly@fitchratings.com

Pasadena

Pasadena's ULTGO 'AAA' rating reflects the city's solid, albeit weakened, financial profile, strong economy, stable tax base, and above-average, though manageable, debt burden. The city undertook a prudent multiyear plan to balance general fund operations that is expected to culminate in a modest operating surplus in fiscal 2013. General fund reserves remain sound but were reduced significantly over the past few years as part of the financial plan. The local economy benefits from the presence of several colleges, residents' above-average education and wealth levels, and a diversified employment base. The city's direct debt load is above average but manageable given residents' elevated wealth levels and the city's use of dedicated non-general fund revenues to support debt service payments.

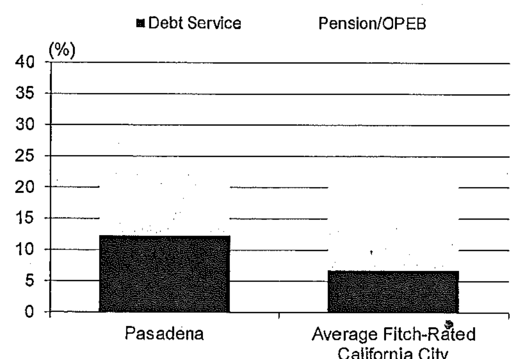
AV Change



Sources: City of Pasedena and Fitch.

Maintenance of its 'AAA' rating will largely depend on the city's ability to bring the general fund into structural balance in fiscal 2013 according to its plan. Fitch views this expectation as reasonable given the city's demonstrated willingness to reduce spending and management's recent success obtaining concessions from some labor groups regarding pension contributions. Financial flexibility is moderately restricted by some longer term labor contracts that include modest but automatic pay increases, although contracts do not include restrictions on furloughs or layoffs. The city also benefits from a diverse revenue base and resilient tax base that has generally seen modest growth over the past few years.

Fixed Costs as % of Spending
(As of June 30, 2011)



Sources: City of Pasedena and Fitch.

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
A+	Assigned	Stable	5/11/11

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
A	Downgraded	Stable	5/11/11
A+	Revised	Stable	4/30/10
A	Assigned	Stable	8/28/09

Unrestricted Fund Balance as % of FY11 General Fund Spending: **38%**

Unemployment Rate

(%)

	July 2012	July 2011
Pico Rivera	11.1	12.3
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Downgrades Pico Rivera Public Financing Authority, CA's Lease Revs to 'A'; Outlook Stable (May 2011)

Analyst
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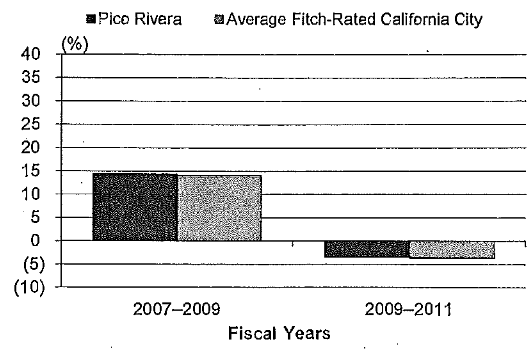
Pico Rivera

Pico Rivera's 'A+' implied ULTGO bond rating reflects mixed financial results over the past several years as well as a relatively stable tax base, proximity to the large and diverse Los Angeles regional employment market, moderate debt levels, slow amortization, and enhanced revenues from a voter-approved 1% sales tax. Unrestricted fund balances remain solid despite two consecutive years of deficit operations. Management's expectation for a return to balance in fiscal 2013 appears reasonable given better than budgeted performance in fiscal 2012, aided by revenue growth from sales tax receipts and a modest AV increase. Per capita income levels are roughly two-thirds of state and national levels, while unemployment is close to the state average.

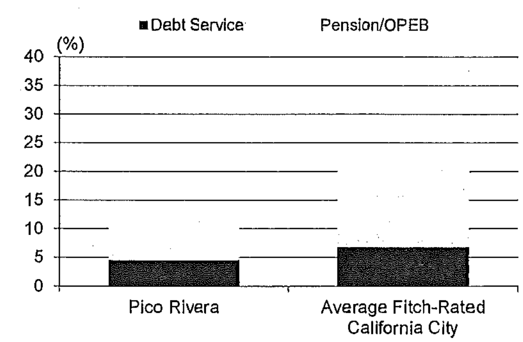
AV Change



Sources: City of Pico Rivera and Fitch.

Pico Rivera's $33.8 million fiscal 2013 budget includes $1.2 million in savings from labor concessions and reduced police service levels in its contract with the Los Angeles County Sheriff. Fire services are provided by an independent assessment district, further insulating the city's general fund from public safety costs. The city participates in a state-sponsored pension plan and has regularly met its annual required contribution. OPEB liabilities are funded on a pay-as-you-go basis, resulting in a growing liability for such benefits. Fitch views management efforts to stabilize financial operations as prudent and expects continuation of careful budget management over the next several years as the local economy continues to recover from the recent recession.

Fixed Costs as % of Spending
(As of June 30, 2011)



Sources: City of Pico Rivera and Fitch.

Pittsburg

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
AA–	Affirmed	Stable	3/21/12
AA–	Revised	Stable	4/30/10
A	Affirmed	Stable	4/19/10
A	Assigned	Stable	6/6/06

Rating History: Pension Obligations

Rating	Action	Outlook/ Watch	Date
A+	Affirmed	Stable	3/21/12
A+	Revised	Stable	4/30/10
A–	Affirmed	Stable	4/19/10
A–	Assigned	Stable	6/6/06

Unrestricted Fund Balance as % of FY11 General Fund Spending: 62%

Unemployment Rate

(%)

	July 2012	July 2011
Pittsburg	14.8	17.1
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Affirms Pittsburg, CA's Pension Funding Bonds at 'A+'; Outlook Stable (March 2012)

Analyst
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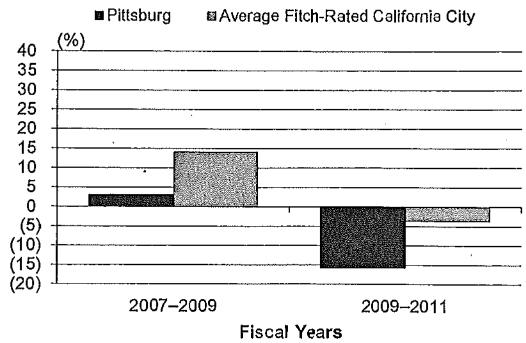
Pittsburg's 'AA–' implied ULTGO bond rating reflects the city's high reserve levels and strong financial position, which have helped it offset financial repercussions of a notably weak local economy, high overall debt burden, and the recent loss of Redevelopment Agency general fund subsidies. Unrestricted fund balance remains high despite recent declines and an 18% drop in AV over the prior five years. Fitch expects the city to successfully implement its multiyear fiscal stabilization plan, which would reduce unrestricted fund balance to a still healthy 29% of general fund spending by fiscal 2017. Fitch notes as a credit strength voter support for a 10-year sales tax measure in June 2012.

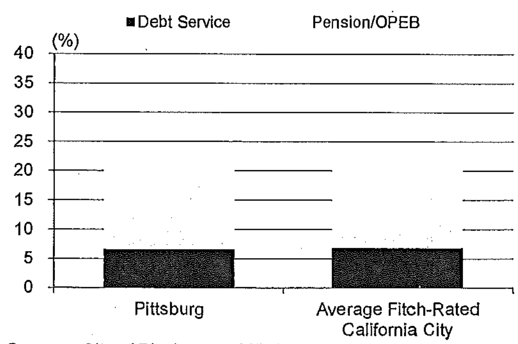
AV Change



Sources: City of Pittsburg and Fitch.

Fitch expects city operations to stabilize over the next three to five years as the local economy slowly recovers and revenue and spending adjustments settle in. Recent cost savings measures implemented by Pittsburg include a modest reduction in city staffing, the shift of certain pension costs from the city to employees, and a cap on the city's contributions toward employee health insurance. Public safety accounts for nearly two-thirds of general fund expenditures, and political support for such services limits the city's options to reduce spending. The city regularly makes its required contributions to the state-sponsored pension plan and funds OPEBs on a pay-as-you-go basis.

Fixed Costs as % of Spending
(As of June 30, 2011)



Sources: City of Pittsburg and Fitch.

Rating History: ULTGO

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	7/31/12
AA	Affirmed	Stable	4/24/12
AA	Downgraded	Stable	4/29/11
AA+	Affirmed	Negative	5/5/10
AA+	Revised	Negative	4/30/10
AA	Affirmed	Negative	2/22/10
AA	Affirmed	Negative	4/27/09
AA	Affirmed	Stable	5/20/08
AA	Affirmed	Stable	12/13/06
AA	Affirmed	Stable	7/27/06
AA	Affirmed	Stable	5/23/05
AA	Assigned	Stable	5/12/204

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
AA-	Affirmed	Stable	7/31/12
AA–	Affirmed	Stable	4/24/12
AA–	Downgraded	Stable	4/29/11
AA	Affirmed	Negative	5/5/10
AA	Revised Rating	Negative	4/30/10
AA–	Affirmed	Negative	2/22/10
AA–	Revised Outlook	Negative	4/27/09
AA–	Affirmed	Stable	5/20/08
AA–	Affirmed	Stable	12/13/06
AA–	Affirmed	Stable	7/27/06
AA–	Affirmed	Stable	5/23/05
AA–	Assigned	Stable	11/13/03

Unrestricted Fund Balance as % of FY11 General Fund Spending: **21%**

Unemployment Rate

(%)	July 2012	July 2011
Riverside	13.1	14.7
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Rates Riverside, CA Lease Rev Rfdg Bonds 'AA-'; Outlook Stable (July 2012)

Fitch Rates Riverside, CA's Pension Obligation BANs 'F1+' & Affirms GOs at 'AA'; Outlook Stable (April 2012)

Fitch Rates Riverside, CA's Pension Oblig BANs 'F1+' & Downgrades GOs to 'AA'; Outlook to Stable (April 2011)

Analysts
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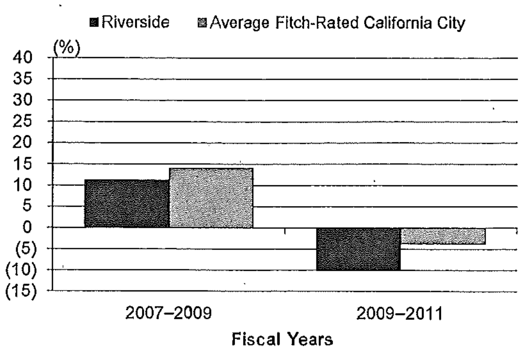
Riverside

Riverside's 'AA' ULTGO bond rating reflects the city's consistently good financial position resulting from sound management practices, diverse revenue sources, stabilizing, though still weak, economy, and moderate debt burden heavily concentrated in variable-rate structures. As the Riverside County ('AA–' Fitch implied GO bond rating) seat, the city is located about 60 miles east of downtown Los Angeles. After several years of declining employment and a hard hit housing market, the city's economy has started to stabilize, as reflected in a slight increase in AV of 1.2% in fiscal 2012 and improvement in its unemployment rate to 13.1% (July 2012), as well as two years of increasing sales tax receipts.

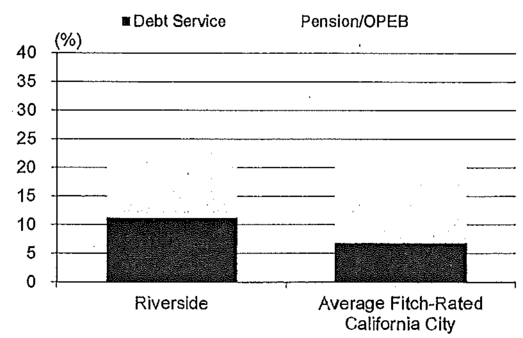
AV Change



Sources: City of Riverside and Fitch.

The city entered the recession with a good financial cushion, and after using some fund balance for planned capital spending and several years of operating deficits, the city posted surpluses after transfers in fiscal years 2010 and 2011. General fund liquidity is lower than peak but remains adequate at $43 million at fiscal year-end 2011. In addition, the city has access to borrowable resources, including $355 million from its enterprise and workers' compensation funds. Overall debt is moderate, but the city is exposed to counterparty and termination risk, as 40% of its debt profile is variable rate.

Fixed Costs as % of Spending
(As of June 30, 2011)



Sources: City of Riverside and Fitch.

Budget adjustments have included nonpublic safety hiring freezes, salary and benefit freezes, and pension and benefit reforms, with savings fully taking effect in fiscal 2013, the budget for which is balanced. The reforms include increased employee contributions, benefit formula changes, and higher retirement age for new employees. The city also eliminated deferred contributions for certain employees and OPEB contributions for all but the police bargaining units. Fitch expects the annual required contributions for pensions to stabilize in the long term due to the reforms, but more immediate savings will be generated from new employees paying their share of pension premiums. While the city expects pension reforms will be ongoing, salary concessions expire in fiscal 2013 or 2014, depending on the contract, at which time cost of living reverts to 0%. Fitch expects the city will face challenges in its efforts to keep labor costs from growing over the intermediate term, as salaries have remained flat since 2010, especially if a reversal occurs in the recent stabilization of property taxes and recovery in sales and hotel tax revenues.

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
AA+	Assigned	Stable	1/31/12

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	1/31/12
AA	Revised Rating	Stable	4/30/10
AA–	Affirmed	Stable	2/4/10
AA–	Affirmed	Stable	9/12/05
AA–	Assigned	Stable	10/28/03

Unrestricted Fund Balance as % of FY11 General Fund Spending: **82%**

Unemployment Rate

(%)

	July 2012	July 2011
Rocklin	6.9	8.0
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Assigns Implied 'AA+' ULTGO Rating to Rocklin, CA & Affirms COPs at 'AA'; Outlook Stable (January 2012)

Analyst
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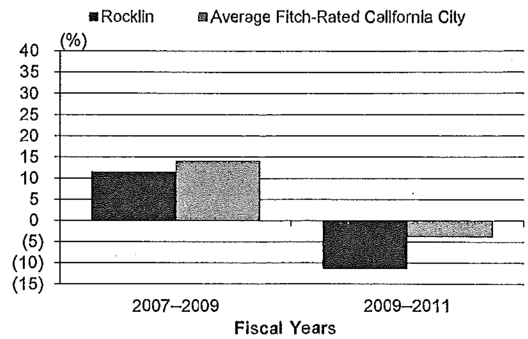
Rocklin

Rocklin's 'AA+' implied ULTGO rating reflects the city's sound financial reserves despite modest deficits and drawdowns reflective of the overall revenue diversity and implemented expenditure reductions, a moderate debt profile, stabilizing tax base, and positive local economic trends. Reserves and liquidity are strong; the city is back to budgetary balance in fiscal years 2011 and 2012 following small operating deficits the prior two years. Approximately half of the fiscal 2011 unrestricted general fund balance is committed, including a $10 million retiree health insurance reserve. City AV declines slowed in 2013 to 1.1%, and current retail development activity is expected to further stabilize the tax base. The underlying economy has outperformed the region, as demonstrated by below-average unemployment rates, above-average income levels, and benefits from the broader Sacramento area. The city's debt burden is moderate, with minimal capital needs and fixed costs for debt service; pensions and OPEB are manageable at 13% of budget.

AV Change

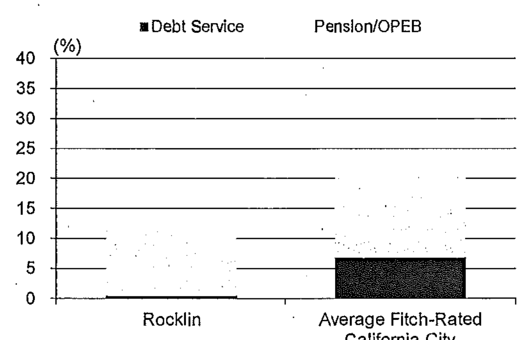


Sources: City of Rocklin and Fitch.

City labor units have agreed to concessions, including delayed salary increases and greater pension contributions. The city has advantageously utilized selective service reductions and privatization to achieve additional budgetary savings. Fitch expects the city's fund balance to remain strong and views the adopted fiscal 2013 budget as sound, as it includes moderate revenue increases based on evident rebounding economic factors and continued personnel cost savings. Fitch expects the city's credit profile to remain above average based on stabilizing tax base trends, continued above-average economic performance, and management's proven ability to maintain budgetary balance.

Fixed Costs as % of Spending

(As of June 30, 2011)



Sources: City of Rocklin and Fitch.

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
AA–	Assigned	Negative	7/20/12

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
A+	Affirmed	Negative	7/20/12
A+	Affirmed	Stable	7/29/10
A+	Revised	Positive	4/30/10
A–	Affirmed	Positive	10/8/08
A–	Affirmed	Stable	5/23/00
A–	Assigned	Stable	2/4/99

Unrestricted Fund Balance as % of FY11 General Fund Spending: **21%**

Unemployment Rate

(%)

	July 2012	July 2011
Rohnert Park	8.5	10.0
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Affirms Rohnert Park, CA's COPs at 'A+'; Outlook Revised to Negative (July 2012)

Fitch Affirms Rohnert Park, California's COPs at 'A+'; Outlook Revised to Stable (July 2010)

Analyst
Matthew Reilly
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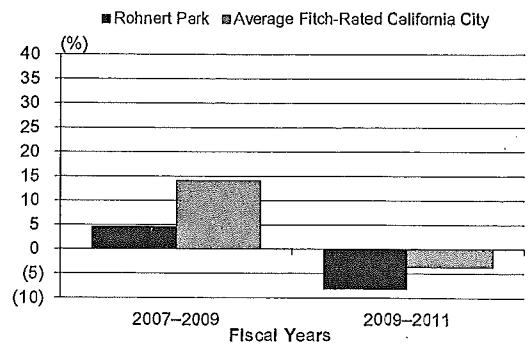
Rohnert Park

The 'AA–' rating on the ULTGO reflects Rohnert Park's still sound reserve levels despite several years of poor financial performance, low debt burden with no additional debt issuance plans, mixed economy with a modestly improving unemployment rate, and stabilizing tax base after three consecutive years of moderate declines. Rohnert Park, located approximately 45 miles north of San Francisco in Sonoma County, is primarily a residential community, with local economic activity largely driven by tourism and a local university.

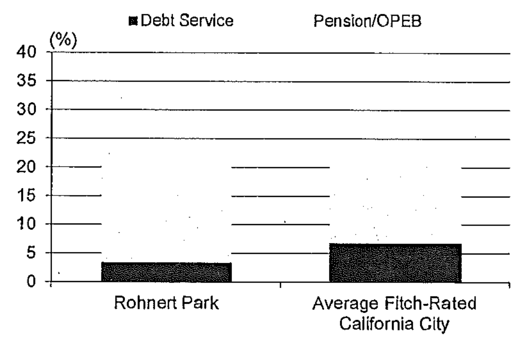
The Negative Rating Outlook reflects the ongoing structural deficit that continues to pressure the city's overall financial profile. The city has taken significant steps to reduce spending to meet decreased revenues, including layoffs and pension reforms negotiated with labor groups. Fitch expects the city to remain challenged to correct its structural imbalance largely due to rising pension and OPEB costs. Labor contracts expire at the end of fiscal 2013 and do not include clauses prohibiting layoffs or furloughs, permitting the city to continue making additional expenditure reductions if necessary. The city is somewhat reliant on sales tax revenue, which may present additional challenges to regaining budgetary balance if revenues fail to meet expectations. Fitch recognizes the city's efforts to budget more conservatively and the importance of this continued practice in maintaining adequate financial results.

AV Change



Sources: City of Rohnert Park and Fitch.

Fixed Costs as % of Spending
(As of June 30, 2011)



Sources: City of Rohnert Park and Fitch.

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
AA–	Affirmed	Stable	6/22/12
AA–	Assigned	Stable	6/22/11

Unrestricted Fund Balance as % of FY11 General Fund Spending: **14%**

Unemployment Rate

(%)

	July 2012	July 2011
Sacramento	13.0	14.9
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Rates Sacramento, CA's $37MM TRANs 'F1+'; Outlook Stable (June 2012)

Fitch Rates Sacramento, CA's $38MM TRANS 'F1+'; Outlook Stable (June 2011)

Analyst
Andrew Ward
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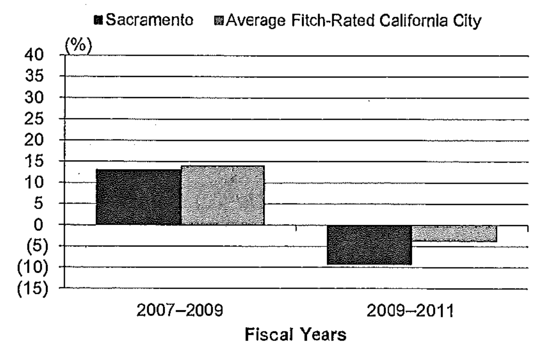
Sacramento

The 'AA–' implied ULTGO bond rating reflects Sacramento's large and diverse tax base, stressed economy, strong financial management, and moderate debt burden. As the state capital and the second-largest city in California's Central Valley, Sacramento has suffered due to a sharp regional slowdown in housing construction as well state budget cutbacks that have reduced the purchasing power of many local residents. But adequate reserves and expenditure cuts have offset the credit impact of economic weakness. The city closed 2011 with a 14% unrestricted general fund balance and appears to have restored fiscal balance after several years in which budgets were balanced with one-time revenues, reserve spending, and one-time expenditure reductions.

AV Change

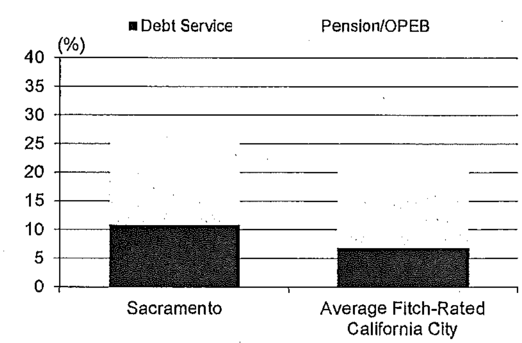


Sources: City of Sacramento and Fitch.

The city successfully secured concessions from employees to balance its 2013 budget, closing an estimated $15.7 million general fund budget gap, largely by requiring workers to pick up their share of pension costs. The city's police union declined to take part in the deal, and the city laid off a significant number of police officers to achieve desired savings. The city's current labor contracts are all short term, expiring during or at the end of the current fiscal year, allowing for annual adjustments of pay rates. The city agreed not to impose further layoffs on non-police employees in exchange for concessions on pension contributions, somewhat limiting its ability to react to unexpected revenue shortfalls in the current budget year; however, pension cost savings are expected to be ongoing along with a significant improvement in the city's budget. Revenue projections appear conservative, and Fitch believes the city's disciplined approach to labor cost control suggests it will achieve its goal of maintaining its current healthy unrestricted fund balance.

Fixed Costs as % of Spending

(As of June 30, 2011)



Sources: City of Sacramento and Fitch.

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
AA–	Affirmed	Stable	5/29/12
AA-	Affirmed	Stable	4/30/10
AA-	Revised	Stable	4/30/10
A+	Upgraded	Stable	6/8/09
BBB+	Affirmed	Positive[a]	3/27/08
BBB+	Downgraded	Negative[a]	5/27/05
A	Downgraded	Negative[a]	2/16/05
AA	Affirmed	Negative[a]	9/23/04
AA	Downgraded	Negative	2/27/04
AAA	Upgraded		5/28/02
AA+	Assigned		4/3/98

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
A+	Affirmed	Stable	5/29/12
A+	Affirmed	Stable	4/30/10
A+	Revised	Stable	4/30/10
A	Upgraded	Stable	12/11/08
BBB–	Affirmed	Positive[a]	5/27/08
BBB–	Downgraded	Negative[a]	5/27/05
A–	Downgraded	Negative[a]	2/16/05
AA–	Affirmed	Negative[a]	9/23/04
AA–	Downgraded	Negative[a]	2/27/04
AA+	Assigned		5/28/02

[a]Rating Watch.

Unrestricted Fund Balance as % of FY11 General Fund Spending: **9%**

Unemployment Rate

(%)

	July 2012	July 2011
San Diego	9.2	10.5
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Rates San Diego, CA Lease Revs 'A+'; Outlook Stable (May 2012)

Fitch Rates San Diego, CA Implied GO at 'AA-'; Outlook Stable (April 2012)

Fitch Rates San Diego, CA 2010-11 TRANs 'F1+' (June 2010)

Analyst
Alan Gibson
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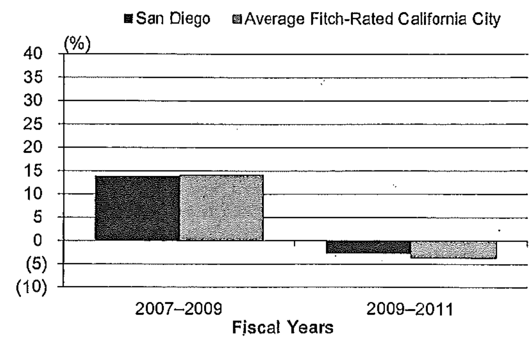
San Diego

San Diego is the second largest city in California, with a population of approximately 1.3 million. The 'AA–' implied ULTGO bond rating reflects the city's diverse economy, variety of revenue streams, moderate debt burden, manageable future debt plans, and desirable location. While the city's largest employers are in traditionally stable sectors, its unemployment rate rose significantly during the economic downturn but has since fallen to a somewhat still elevated level, at 9.2% in July 2012. The city has consistently exceeded its 8% general fund reserve goal, and this trend continued in fiscal years 2011 and 2012, with balanced and surplus operations, respectively, supporting general fund reserves in excess of 10% of revenues.

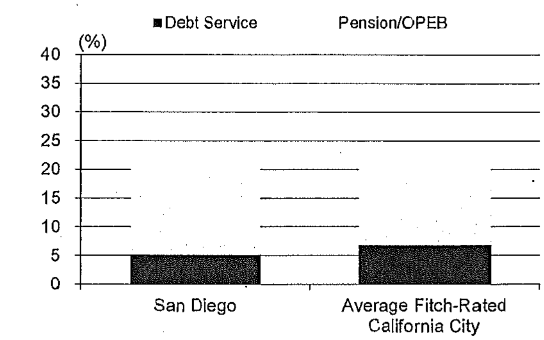
AV Change



Sources: City of San Diego and Fitch.

Fitch considers the city's revised five-year outlook for break-even to positive operations through fiscal 2017 reasonable given significant savings from previously negotiated multiyear labor concessions, pension and OPEB reform, and the likelihood that the city's diverse revenue streams will continue to improve as the economy recovers. Nevertheless, significant headwinds remain. Unmet infrastructure maintenance needs and pension and OPEB liabilities will continue to exert pressure on the city's overall credit profile. Despite ongoing construction and a positive housing price trend, Fitch expects stagnant taxable AV performance over the near term given countywide ongoing elevated level of appeals, foreclosures, and delinquencies. Fitch expects the city to face pressure from labor over total compensation when negotiating for fiscal 2014 and beyond. This could reduce the savings from the pension reform measure (Proposition B) approved by a wide margin of voters in June 2012, which signaled voters' reluctance to permit significant employee compensation growth.

Fixed Costs as % of Spending
(As of June 30, 2011)



Sources: City of San Diego and Fitch.

Rating History: ULTGO

Rating	Action	Outlook/ Watch	Date
AA–	Affirmed	Stable	5/4/12
AA–	Downgraded	Stable	4/12/11
AA	Revised	Negative	4/30/10
AA–	Affirmed	Negative	2/23/10
AA–	Affirmed	Stable	9/10/09
AA–	Affirmed	Positive	8/5/05
AA–	Affirmed	Stable	5/3/05
AA–	Downgraded	Stable	5/18/04
AA	Affirmed	Negative	6/17/03
AA	Assigned	Stable	8/2/00

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
A+	Affirmed	Stable	5/4/12
A+	Downgraded	Stable	4/12/11
AA–	Revised	Negative	4/30/10
A+	Affirmed	Negative	2/23/10
A+	Affirmed	Stable	3/18/08
A+	Affirmed	Positive	4/26/07
A+	Upgraded	Positive	3/13/06
A	Downgraded	Stable	5/18/04
A+	Affirmed	Negative	6/17/03
A+	Assigned	Stable	8/19/99

Unrestricted Fund Balance as % of FY11 General Fund Spending: **9.3%**

Unemployment Rate

(%)

	July 2012	July 2011
San Francisco	7.6	9.0
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Rates San Francisco, CA's $38.9.5MM COPs 'A+' & Affirms Outstanding; Outlook Stable (May 2012)

Fitch Rates San Francisco Fin Corp, CA's $10.5MM Lease Revs 'A+'; Affirms Outstanding; Outlook Stable (March 2012)

Fitch Rates San Francisco, CA's $331MM GOs 'AA-'; Affirms Outstanding; Outlook Stable (16-Feb-2012)

Analyst
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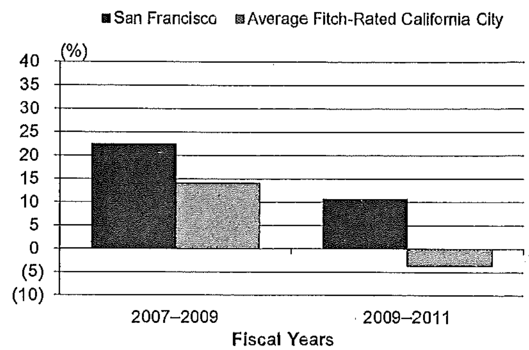
San Francisco

The 'AA–' ULTGO bond rating reflects San Francisco's large, wealthy, and growing economy and tax base; a tax structure that captures the diverse economic activity; a generous electorate with a history of approving tax increases for operations and capital; and strong fiscal policies and oversight. Offsetting these strengths are the city's large unfunded retiree costs and sizable capital needs; fund balance volatility, reflecting its history of budget growth in strong economic times and subsequent difficulty curbing spending during economic downturns; and history of funding social services at higher rates than reimbursed by the state. New financial policies — some adopted by the voters and others implemented through ordinance — require the city to use nonrecurring revenues (including revenues in excess of historical growth rates) to fund a budget stability reserve, limiting its ability to budget these for ongoing purposes.

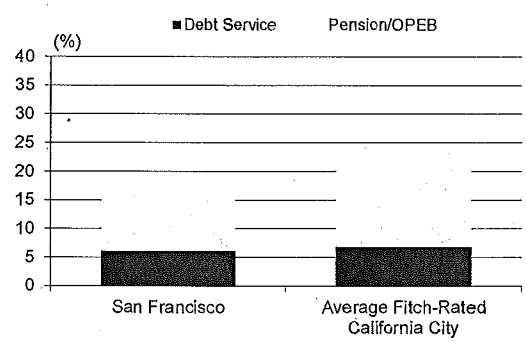
AV Change



Sources: City of San Francisco and Fitch.

The city expects to end fiscal 2012 with surplus operations, aided by major tax revenues coming in well over budgeted levels. The city closed the fiscal 2013 initially estimated 5.3% budget gap with continued revenue growth and 0% wage increases. The majority of labor agreements have two-year terms (public safety is for three years), and the second year includes a moderate 1.75% salary increase. The city faces sizable unfunded retiree costs for both pension and OPEB, but voters have approved prudent measures in recent years, creating new tiers and increases in employee contributions, which have helped contain cost growth but do not reduce the already large liabilities. Over the next two to three years, Fitch expects the city to increase its reserve levels pursuant to its new policies; however, budget pressure may continue to grow if "pent-up" wage pressure, increasing retiree costs, and demand for services exceed revenue growth.

Fixed Costs as % of Spending
(As of June 30, 2011)



Sources: City of San Francisco and Fitch.

Rating History: ULTGO

Rating	Action	Outlook/ Watch	Date
AA+	Downgraded	Stable	3/18/11
AAA	Affirmed	Negative	7/8/10
AAA	Revised	Negative	4/30/10
AA+	Affirmed	Negative	5/29/09
AA+	Affirmed	Stable	5/22/08
AA+	Affirmed	Stable	5/22/07
AA+	Affirmed	Stable	6/14/06
AA+	Affirmed	Stable	5/22/06
AA+	Affirmed	Stable	6/3/05
AA+	Affirmed	Stable	6/4/04
AA+	Affirmed	Stable	8/12/03
AA+	Assigned	Stable	7/1/02

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
AA	Downgraded	Stable	3/18/11
AA+	Affirmed	Negative	7/8/10
AA+	Revised	Negative	4/30/10
AA	Affirmed	Negative	5/22/08
AA	Affirmed	Stable	5/22/07
AA	Affirmed	Stable	6/3/05
AA	Affirmed	Stable	1/21/05
AA	Affirmed	Stable	8/12/03
AA	Assigned	Stable	6/29/01

Unrestricted Fund Balance as % of FY11 General Fund Spending: **23%**

Unemployment Rate

(%)

	July 2012	July 2011
San Jose	9.7	11.2
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Downgrades San Jose (CA) GOs to 'AA+' from 'AAA'; Outlook Revised to Stable (March 2011)

Fitch Affirms City of San Jose, CA's GO Bonds at 'AAA'; Outlook Remains Negative (July 2010)

Analyst
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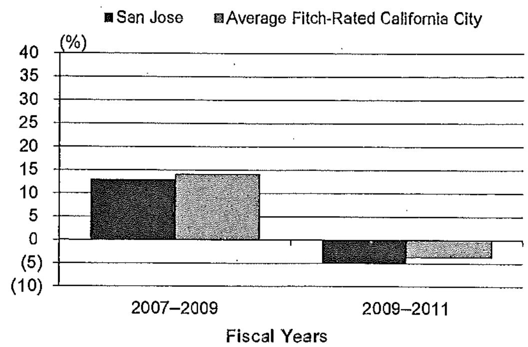
San Jose

The 'AA+' ULTGO bond rating reflects San Jose's above-average economic base, sound financial operations, good planning and budgeting practices, and material ongoing labor concessions that will somewhat mitigate rising benefit costs. With a population of about 950,000, San Jose is the largest Bay Area city and the third largest in the state. Its economy has above-average exposure to cyclical high-tech industries, but it benefits from its proximity to several universities, an abundance of venture capital companies, and a highly educated, affluent work force. The city's base has shown good recent expansion and income levels are well above average.

AV Change

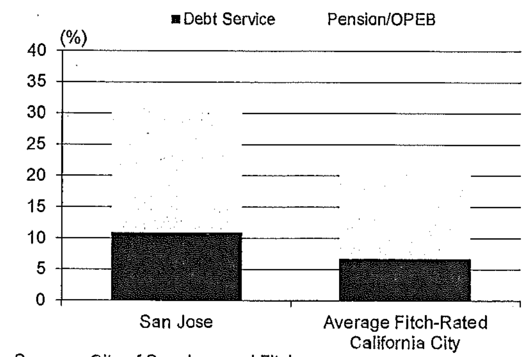


Sources: City of San Jose and Fitch.

The city's general fund has produced operating deficits in each of the past four audited fiscal years as a result of pressured revenues and rising benefit costs, lowering the fiscal 2011 unrestricted general fund balance to still sound levels. Fitch believes the city will continue to maintain a sound unrestricted fund balance based on recent promising economic gains, significant ongoing labor concessions, and management's success in substantially reducing its budgetary deficit. Fitch notes that the city has implemented substantial service cuts and labor concessions, which may make future cuts more challenging. The city's five-year forecast is roughly balanced overall, but estimates do not include potential positive impacts from Measure B, a significant pension reform, or a number of potential cost increases. The city is facing legal challenges to Measure B, but if allowed to stand, it could help mitigate the city's very high carrying costs for pension, OPEB, and debt.

Fixed Costs as % of Spending

(As of June 30, 2011)



Sources: City of San Jose and Fitch.

Rating History: ULTGO

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	3/13/12
AAA	Revised	Stable	4/30/10
AA+	Affirmed	Stable	3/26/10
AA+	Upgraded	Stable	7/13/07
AA	Upgraded	Stable	5/23/00
AA–	Assigned	Stable	5/21/98

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
A	Downgraded	Stable	5/2/11
AA	Revised	Stable	4/30/10
AA–	Affirmed	Stable	3/3/09
AA–	Affirmed	Stable	8/6/04
AA–	Assigned	Stable	2/7/02

Unrestricted Fund Balance as % of FY11 General Fund Spending: **36%**

Unemployment Rate

(%)

	July 2012	July 2011
San Juan Capistrano	7.0	8.1
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Affirms San Juan Capistrano, California GOs at 'AAA'; Outlook Stable (March 2012)

Fitch Downgrades San Juan Capistrano Pub Fin Auth, California's Rev COPs to 'A'; Outlook Stable (May 2011)

Analyst
Alan Gibson
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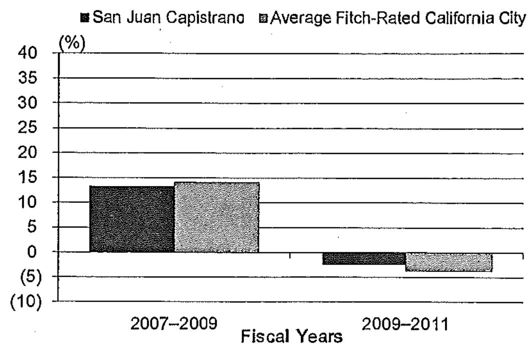
San Juan Capistrano

The 'AAA' GO bond rating reflects the San Juan Capistrano's resilient and diverse tax base, significantly above-average socioeconomic characteristics, strong financial management, conservative debt profile with no plans to issue further debt, and manageable pension and OPEB liabilities. The city is considered a highly desirable place to live, located midway between Los Angeles and San Diego, with considerable open space (44% of the city's land), recreational facilities, and a historic downtown. After some business contraction due to the economic downturn, the city's large economic base is now demonstrating signs of renewed expansion. Fiscal 2011 marked the reversal of three years of general fund balance drawdowns, with the city reporting an unrestricted general fund balance totaling 35.7% of spending. The city responded over the last few years to large revenue declines by implementing cost-cutting measures, including labor concessions and efficiency initiatives. Revenue recovery now appears evident, but general fund liquidity remains very tight due to a one-time court settlement payment and a loan to the city's water fund (to be repaid over the next three years). According to the city's cash flow projections, available internally borrowable funds are sufficient for the near term.

AV Change

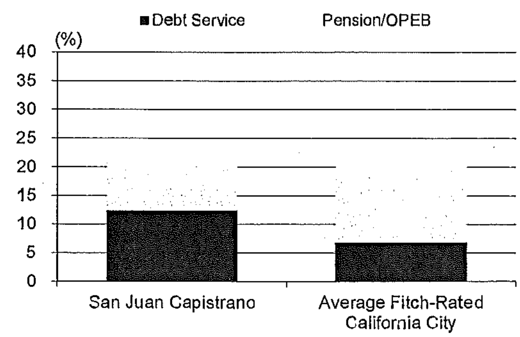


Sources: City of San Juan Capistrano and Fitch.

Consistent with city projections, Fitch expects the city's general fund balance to remain steady at around the slightly reduced levels projected for fiscal 2012 (still over 30% of spending) in the near term given rebounding revenues and continued management focus on cost control. The city is poised to benefit over the long term from pension reform (a new tier commenced on July 1, 2012), with all employees paying their full share of pension contributions (from July 1, 2013 onward). The next round of labor negotiations will likely start in fall 2013 to determine labor agreements for fiscal 2014 onward. Labor is kept regularly briefed about the city's financial status via quarterly all-staff meetings so will enter these negotiations well informed. The city aims to rebuild its contingency reserve as close as possible to 50% of spending by the end of fiscal 2016. Fitch considers the city's success achieving this goal will depend heavily on the results of the upcoming contract negotiations, ongoing expenditure controls, and the administration's continued focus on local economic and business development.

Fixed Costs as % of Spending

(As of June 30, 2011)



Sources: City of San Juan Capistrano and Fitch.

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	5/7/12
AA+	Affirmed	Stable	7/19/11
AA+	Revised	Stable	4/30/10
AA	Assigned	Stable	2/20/09

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	5/7/12
AA	Affirmed	Stable	7/19/11
AA	Revised	Stable	4/30/10
AA–	Affirmed	Stable	2/20/09
AA–	Assigned	Stable	4/5/06

Unrestricted Fund Balance as % of FY11 General Fund Spending: **25%**

Unemployment Rate

(%)

	July 2012	July 2011
San Luis Obispo	9.3	10.7
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Rates San Luis Obispo, CA's Lease Rev Bonds 'AA'; Outlook Stable (May 2012)

Fitch Affirms San Luis Obispo, CA's Lease Revs at 'AA'; Outlook Stable (July 2011)

Analyst
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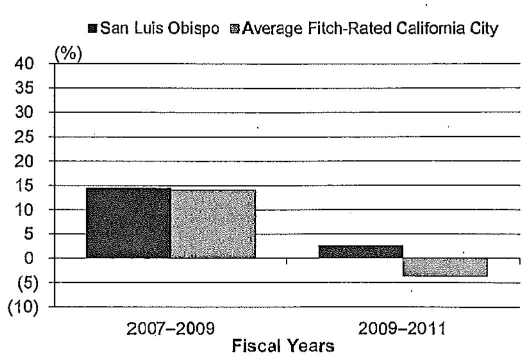
andrew.ward@fitchratings.com

San Luis Obispo

The 'AA+' implied ULTGO bond rating reflects San Luis Obispo's resilient and diverse tax base, solid economy, very strong financial management, and low debt burden. San Luis Obispo, the cultural and economic center of California's Central Coast region, suffered significant declines in revenues during the recent economic downturn due to its heavy reliance on sales tax receipts. The city offset the decreases by spending down some of its ample fund balances and cutting spending.

AV Change



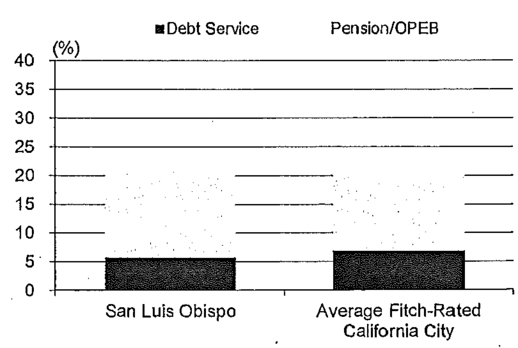
Sources: City of San Luis Obispo and Fitch.

Financial management is particularly strong, with active monitoring of budget performance, strong financial policies, and a budget process that makes long-term financial forecasts a central part of the city's ongoing effort to align revenues with expenditures to achieve structural budget balance. The city complied with its 20% unrestricted reserve policy throughout the recent downturn and began to rebuild reserves as economic recovery began to improve revenue performance in fiscal years 2011 and 2012. The city finished fiscal 2011 with an unrestricted fund balance equal to 25.2% of expenditures and transfers out. Preliminary estimates show the city adding about $700,000 to fund balance in fiscal 2012.

The city's main budget concern is the ongoing cost pressures associated with increasing pension costs. Voters approved charter amendments last year that eliminated binding arbitration for public safety labor contracts and would allow policymakers to reduce pension benefits without voter approval. The amendments improve the ability of policymakers to align expenditures with revenues. The city council is making progress meeting its goal of reducing total compensation by 6.8% from fiscal years 2010–2011 levels, primarily through negotiation of multiyear contracts that will require workers to increase pension contributions while foregoing pay raises. The city has secured these concessions from a significant proportion of its work force, including its firefighters, but it has reached an impasse with its police union. City officials have the right to impose terms if negotiations fail. Fitch believes the commitment of voters and elected officials to reduce labor costs and the city's healthy reserves and strong financial policies suggest the city will maintain a strong financial profile as it negotiates to reduce its expense structure.

Fixed Costs as % of Spending

(As of June 30, 2011)



Sources: City of San Luis Obispo and Fitch.

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	6/21/12
AA+	Assigned	Stable	9/21/11

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	6/21/12
AA	Affirmed	Stable	9/21/11
AA	Revised	Stable	4/30/10
AA-	Downgraded	Stable	9/25/09
AA	Affirmed	Negative	9/13/05
AA	Assigned	Stable	3/18/03

Unrestricted Fund Balance as % of FY11 General Fund Spending: **11%**

Unemployment Rate

(%)

	July 2012	July 2011
San Rafael	7.9	9.3
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Rates San Rafael, CA's Lease Revenue Refunding Bonds at 'AA'; Outlook Stable (June 2012)

Fitch Affirms San Rafael, CA's Lease Revenue Bonds at 'AA'; Outlook Stable (September 2011)

Analyst
Stephen Walsh
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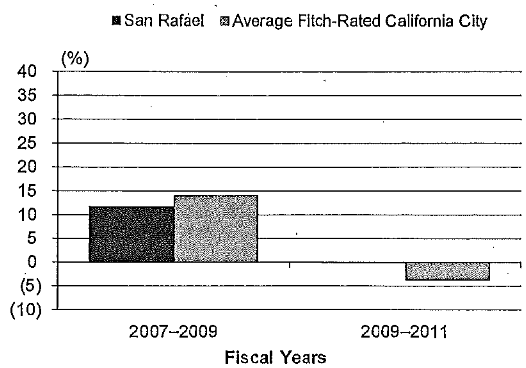
stephen.walsh@fitchratings.com

San Rafael

San Rafael's credit strengths include its strong tax base, high wealth and income levels, and limited debt, offset by San Rafael's substantial pension liabilities and related budget strains. Available fund balance returned to a healthy level in fiscal 2011, and management reports break-even results for fiscal 2012, despite a budgeted $2 million operating deficit. Fitch believes management expectations for continued balanced operations in fiscal 2013 are reasonable given improved sales tax revenues and the elimination of one-time budget strategies. The city's tax base fared relatively well during the recent downturn, with a small decline in assessed value for 2011, followed by a return to modest growth in subsequent years. Wealth and income levels remain well above state and national averages.

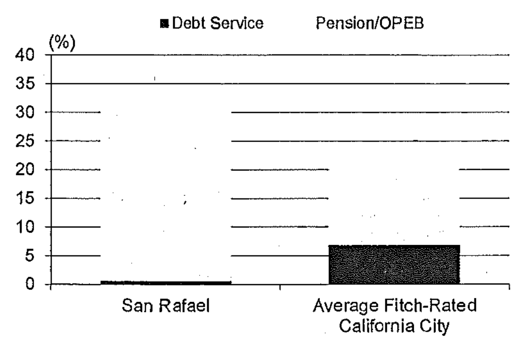
AV Change



Sources: City of San Rafael and Fitch.

Pension costs accounted for an exceptionally high share of general fund spending in fiscal 2011. The city recently reduced retirement benefits for new hires, but the impact of such savings will not be seen for many years, and management projects continued growth in pension costs for the foreseeable future. The city has experienced more immediate budget savings from a 16% reduction in staffing between fiscal years 2008 and 2012, as well as a voter-approved half-cent sales tax measure that expires in 2016. While Fitch expects continued budget balance to be a challenge given spending cuts to date and rising pension costs, Fitch believes city finances will continue to stabilize with recent improvements in revenue and decreased reliance on one-time strategies.

Fixed Costs as % of Spending
(As of June 30, 2011)



Sources: City of San Rafael and Fitch.

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
AA+	Assigned	Stable	8/15/12

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	8/15/12
AA	Affirmed	Stable	9/20/10
AA	Revised	Stable	4/30/10
AA–	Affirmed	Stable	11/6/07
AA–	Assigned	Stable	3/14/01

- Unrestricted Fund Balance as % of FY11 General Fund Spending: **22%**

Unemployment Rate

(%)

	July 2012	July 2011
Santa Cruz	8.1	9.1
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Affirms Santa Cruz, CA's Lease Debt at 'AA'; Outlook Stable (August 2012)

Fitch Affirms Santa Cruz, CA's COPs and LRBs at 'AA'; Outlook Stable (September 2010)

Analyst
Scott Monroe
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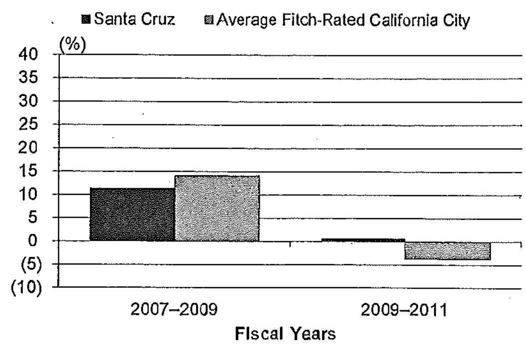
scott.monroe@fitchratings.com

Santa Cruz

The 'AA+' implied ULTGO rating reflects Santa Cruz's sound financial operations, taxpayer support for revenue enhancements, diverse and resilient economy, large and mature tax base, and sound debt profile. The city is the county seat of Santa Cruz County, located 30 miles south of San Jose on California's central coast, and home to University of California-Santa Cruz. The city's well-diversified tax base has been just modestly affected by a regional housing slump and, although mostly built out, stands to realize mild revenue enhancements with the upcoming completion of a new hotel.

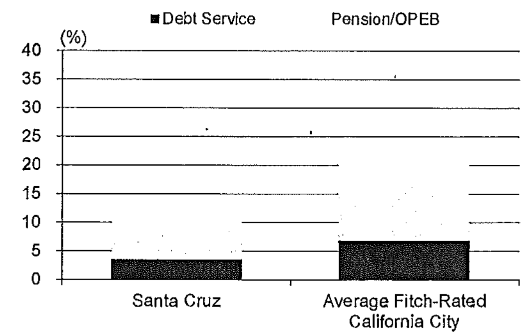
The city has demonstrated strong financial operations, enhanced over the past three years by cost-cutting, benefit reforms, and voter-approved tax hikes. In fiscal 2010, labor agreed to substantial concessions, while the city cut positions, reduced social service spending, and began charging its enterprises for land rentals. Taxpayers passed a utility user tax hike in 2010 and are considering a ballot measure in November 2012 that would increase the transient occupancy tax rate to 11% from 10%. Fitch expects relatively stable operations over the near term, as reflected in the city's fiscal 2012 estimates and conservative revenue assumptions for fiscal 2013.

AV Change



Sources: City of Santa Cruz and Fitch.

Fixed Costs as % of Spending
(As of June 30, 2011)



Sources: City of Santa Cruz and Fitch.

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
AA+	Assigned	Stable	5/19/11

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	5/19/11
AA	Revised	Stable	4/30/10
AA–	Affirmed	Stable	5/5/09
AA–	Assigned	Stable	12/13/02

Unrestricted Fund Balance as % of FY11 General Fund Spending: **79%**

Unemployment Rate

(%)

	July 2012	July 2011
Santa Maria	12.3	13.5
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Affirms Santa Maria Redevelopment Agency, CA Lease Revenue Bonds at 'AA'; Outlook Stable (May 2011)

Analyst
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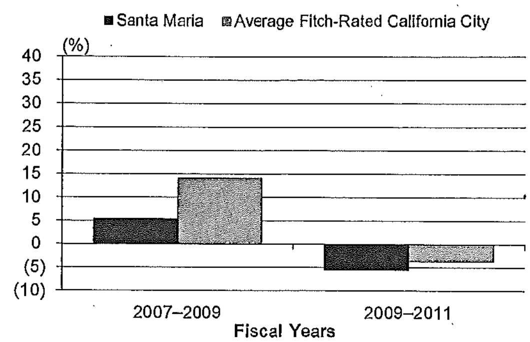
Santa Maria

Santa Maria's operations feature strong finances, including the maintenance of very high unreserved fund balances despite the city's use of reserves for budget balance in recent years to offset revenue declines. The city will be able to substitute the use of reserves over the intermediate term with revenue generated from a nine-year quarter cent sales tax measure approved in June 2012. Debt levels are low, and debt is rapidly amortized. AV levels declined in 2009 and 2010 but appear to be stabilizing, with AV essentially flat in 2011 and modest growth in 2012 and expected for 2013. Economic indicators are weak, as characterized by low income and wealth levels and high unemployment, which is consistent with the city's historical concentration in agriculture.

AV Change

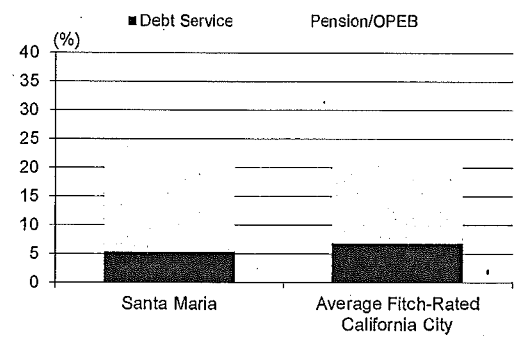


Sources: City of Santa Maria and Fitch.

The city has taken action to control personnel costs, including actions to freeze cost-of-living adjustments, implement furlough days, limit retirement benefits for new employees, and cap contributions toward employee health benefit costs. Labor contracts expire in December 2012. While city management is not expecting any significant cost increases in the new contracts, officials anticipate the expiration of furloughs, which will increase spending slightly. Fitch expects the city will successfully manage its budget over the next few years to cover cost fluctuations largely with recurring revenue, aided in part by the new sales tax, and, meet its projections, which currently show unrestricted fund balances at high levels (about 70% of spending).

Fixed Costs as % of Spending

(As of June 30, 2011)



Sources: City of Santa Maria and Fitch.

Rating History: ULTGO

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	4/30/12
AAA	Affirmed	Stable	10/25/11
AAA	Affirmed	Stable	11/25/09
AAA	Affirmed	Stable	11/23/04
AAA	Assigned	Stable	7/31/02

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	4/30/12
AAA	Affirmed	Stable	10/25/11
AAA	Affirmed	Stable	11/25/09
AAA	Affirmed	Stable	11/23/04
AAA	Assigned	Stable	7/31/02

Unrestricted Fund Balance as % of FY11 General Fund Spending: **96%**

Unemployment Rate

(%)

	July 2012	July 2011
Santa Monica	9.8	11.0
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Rates Santa Monica, CA's GOs 'AAA'; Outlook Stable (April 2012)

Fitch Rates Santa Monica PFA, CA's Lease Revs 'AA+'; Outlook Stable (October 2011)

Analyst
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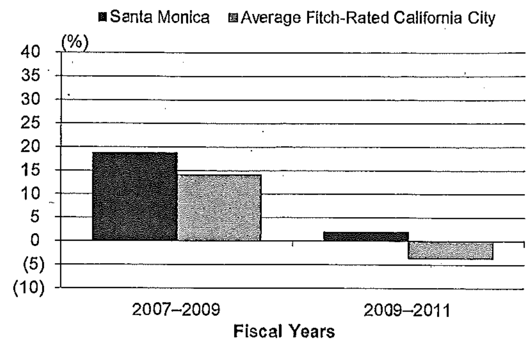
Santa Monica

The 'AAA' ULTGO bond rating reflects Santa Monica's very strong financial operations, a healthy local economy, a diversified and resilient tax base, a good debt profile, and manageable OPEB and pension liabilities. The local economy is diverse, with tourism driving activity among the city's high-end hotels, retail establishments, recreation-oriented enterprises, and benefits from the large and diverse regional Los Angeles employment market. The city's AV rose to a record high in fiscal 2012, outperforming the region, and significant commercial, housing, and transit projects under way should keep the momentum going.

AV Change

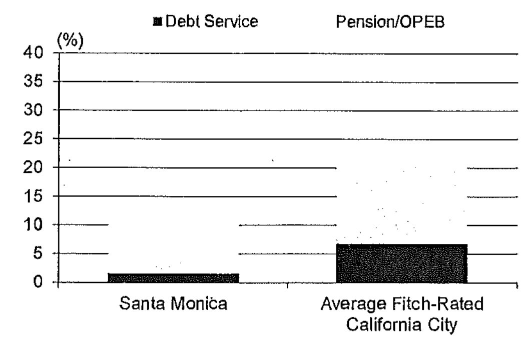


Sources: City of Santa Monica and Fitch.

Fitch expects continued strong financial operations in future years on a structural basis based on the city's history of strong operations, a supportive taxpayer environment, and prudent financial management, including five-year financial projections. The city's revenue base is diverse and expanding, and Fitch expects the city's robust financial cushion to remain despite the plan to spend down a portion of fund balance on one-time capital projects. The city reached an agreement with its labor unions recently to implement a two-tier pension system and to have employees pay a portion of annual pension costs moving forward. Fitch expects these actions, in conjunction with recent pension contributions in excess of annually required payments, to moderately offset rising future pension costs linked to recent years' investment losses.

Fixed Costs as % of Spending

(As of June 30, 2011)



Sources: City of Santa Monica and Fitch.

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
AA	Assigned	Stable	4/13/11

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
AA–	Affirmed	Stable	4/13/11
AA–	Revised	Stable	4/30/10
A+	Affirmed	Stable	10/12/09
A+	Assigned	Stable	10/29/07

Unrestricted Fund Balance as % of FY11 General Fund Spending: **45%**

Unemployment Rate
(%)

	July 2012	July 2011
Vista	10.3	11.7
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Affirms City of Vista, CA's $115.3MM COPs at 'AA-', Outlook Stable (April 2011)

Analyst
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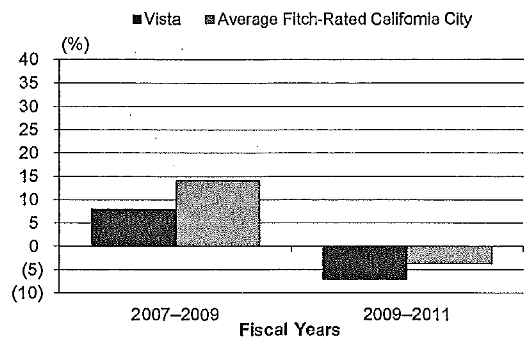
Vista

Vista's 'AA' implied ULTGO rating reflects strong management practices that are enabling the city to maintain sound financial reserves, which grew again in fiscal 2012. Property and sales tax revenue volatility were offset by prudent expenditure reductions produced by layoffs, furloughs, and labor contract concessions. Other credit factors include the city's proximity and access to the greater San Diego regional economy, a moderate debt profile, stabilizing tax base, and a somewhat sluggish local economy, as reflected in above-average unemployment rates and below-average income levels. The city's debt burden is moderate, with minimal additional capital needs and fixed costs for debt service, and pensions are manageable at 13.4% of budget. The city has no OPEB liabilities.

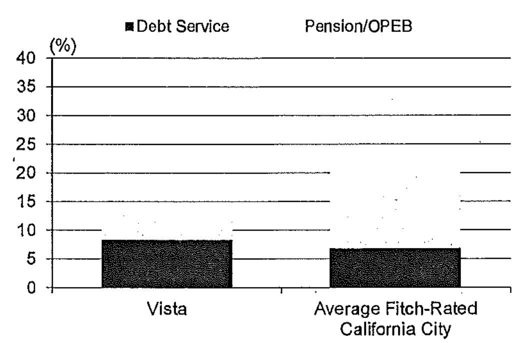
AV Change



Sources: City of Vista and Fitch.

The city continues to address significant budgetary pressures through careful review of spending and services, coupled with conservative revenue forecasting. Fitch views as a credit positive management's ability to successfully balance labor wage and benefit costs through the use of furloughs. Total filled positions were down an additional 10% over the last three years, and Fitch views the adopted fiscal 2013 budget as sound, as it includes moderate revenue increases based on evident rebounding economic factors and continued personnel cost savings. Pension payments are expected to rise given recent plan return assumption changes and performance. Fitch expects the city's credit profile to remain sound based on stabilizing tax base trends and maintenance of strong financial reserves.

Fixed Costs as % of Spending
(As of June 30, 2011)



Sources: City of Vista and Fitch.

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
AAA	Assigned	Stable	2/17/11

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	2/17/11
AA+	Revised	Stable	4/30/10
AA	Assigned	Stable	6/15/09

Unrestricted Fund Balance as % of FY11 General Fund Spending: **120%**

Unemployment Rate

(%)

	July 2012	July 2011
West Hollywood	10.1	11.2
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Affirms West Hollywood, CA Lease Revenue Bonds at 'AA+'; Outlook Stable (February 2011)

Analyst
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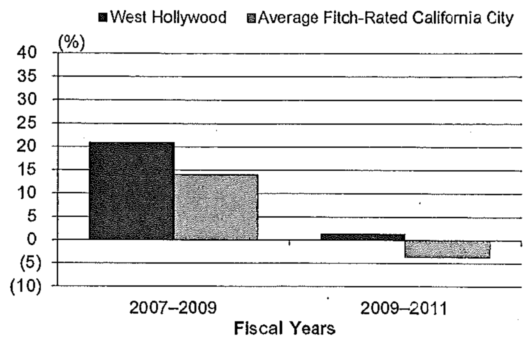
West Hollywood

West Hollywood's 'AAA' implied ULTGO bond rating reflects an exceptionally strong financial position supported by diverse sources of revenue, a stable tax base and local economy, and high wealth levels. A surplus for fiscal 2011 was aided by strong results for the city's hotel tax, sales tax, property tax, and parking fines. General fund results for 2012 are expected to continue the trend, and the city's recently adopted two-year budget anticipates the maintenance of reserves at current levels. AV declines were relatively minimal and returned to growth in 2012, with further gains expected in 2013. AV per capita is high at $212,000, and per capita incomes are close to twice the national average.

AV Change

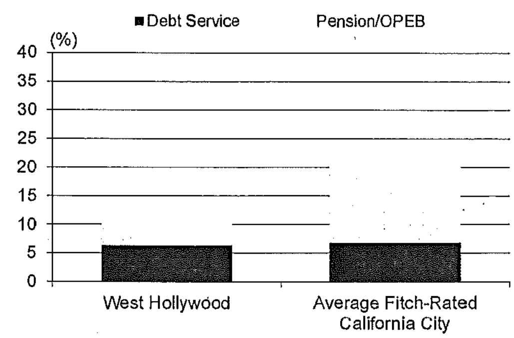


Sources: City of West Hollywood and Fitch.

The city's strong revenue performance and extensive use of contracts for city services has helped it to avoid many of the reductions seen in other California cities. Police, fire, and library services are provided through Los Angeles County, limiting the city's exposure to labor cost inflation. The city participates in a state-sponsored pension plan and has regularly met or exceeded its annual required contribution. OPEB liabilities are funded on a pay-as-you-go basis, but the city's liability for such expenses is manageable. Overlapping debt levels are moderately high due to borrowing by the Los Angeles Unified School District, but most of the city's capital needs are funded from current resources. Fitch expects the city to maintain stable operations over the next several years due to its substantial revenue base and the continuing strength of its local economy.

Fixed Costs as % of Spending

(As of June 30, 2011)



Sources: City of West Hollywood and Fitch.

Rating History: Implied ULTGO

Rating	Action	Outlook/ Watch	Date
AA–	Assigned	Stable	1/25/12

Rating History: Lease Obligations

Rating	Action	Outlook/ Watch	Date
A+	Downgraded	Stable	1/25/12
AA–	Affirmed	Negative	1/31/11
AA–	Revised	Stable	4/30/10
A+	Affirmed	Stable	8/18/08
A+	Assigned	Stable	7/5/06

Unrestricted Fund Balance as % of FY11 General Fund Spending: **21%**

Unemployment Rate

(%)

	July 2012	July 2011
Yuba City	18.5	19.6
California	10.7	11.9
U.S.	8.3	9.1

Related Research

Fitch Downgrades Yuba City Financing Authority, CA's COPs to 'A+'; Outlook Stable (January 2012)

Fitch Affirms Yuba City Financing Authority, CA's COPs at 'AA-'; Outlook Revised to Negative (January 2011)

Analyst
Scott Monroe
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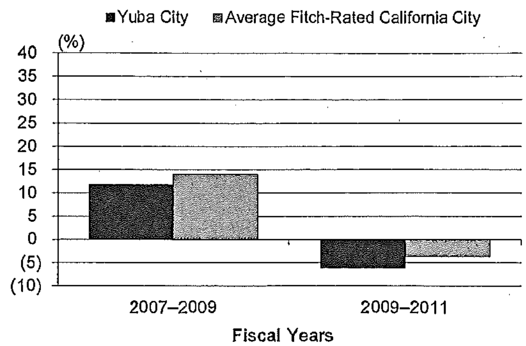
scott.monroe@fitchratings.com

Yuba City

The 'AA–' implied ULTGO bond rating reflects the city's strong financial position, prudent management practices, and sound debt profile. These strengths are offset somewhat by a weak and somewhat limited local economy, with a tax base that has continued to deteriorate through the recession. Located 40 miles north of Sacramento, the city has faced severe economic pressure for several years. As an agricultural community, the city's unemployment and income levels consistently have been far weaker than state levels, and the region's distressed housing market has lowered AV a cumulative 11.2% from fiscal years 2009–2012. Preliminary indications from the county auditor-controller show a modest 1% AV decline in fiscal 2013. In spite of these economic concerns, the city's financial operations have performed well to date due to sound financial practices.

AV Change

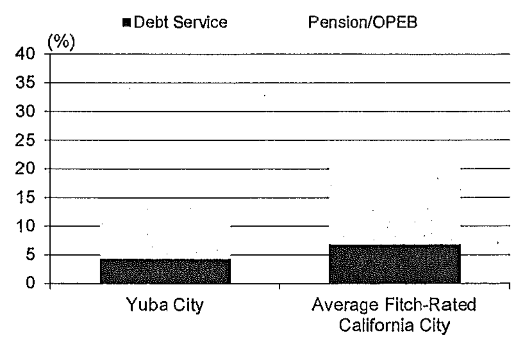


Sources: Yuba City and Fitch.

Fitch believes the city will stabilize financial operations at solid levels due to historically prudent management practices and the city's success to date negotiating meaningful labor concessions. The city plans to spend down a portion of its very high fund balance through fiscal 2014 but should retain solid levels due to prudent expense management and a contract re-opener by the city or labor groups if total general fund revenues and expenditures rise or fall by more than 5% ($1.6 million of budgeted fiscal 2013 revenues). Fitch believes this provision will provide the city with enhanced flexibility in the event the economy performs worse than anticipated, though the city has tended to budget conservatively.

Fixed Costs as % of Spending

(As of June 30, 2011)



Sources: Yuba City and Fitch.

Appendix A: Metrics by City

City	ULTGO Rating	Outlook	Overall Debt as % of Full Value	Overall Debt Per Capita	2011 Debt Service as % of Operational Spending[a]	2011 Total Carrying Costs as % of Operational Spending[b]	Unrestricted Fund Balance as % of GF Spending (2011)[c]	Modified Quick Ratio 2011[d]	AV % Change July 2007–2009	AV % Change July 2009-2011	Unemploy-ment % July 2011	Unemploy-ment % July 2012	YoY Nonfarm Employment % Change	Per Capita Money Income (as % of CA)
Anaheim	AA+	N	3.70	3,749	15.0	36.7	7.8	0.90	5.5	(2.2)	11.7	10.2	2.2	78.9
Arcadia	AA+	S	2.40	4,171	0.5	13.1	55.8	13.10	13.0	6.7	7.6	6.8	(0.1)	130.0
Beverly Hills	AAA	S	2.70	16,518	9.0	18.3	44.2	5.87	22.2	3.4	9.3	8.3	(0.1)	229.0
Corte Madera7	A	N	2.70	6,780	7.4	20.9	6.2	0.00	14.4	1.5	7.8	6.7	4.5	217.0
El Monte	BBB	S	4.20	2,156	5.8	27.2	16.9	0.67	14.7	(2.2)	16.2	14.6	(0.1)	49.3
El Paso De Robles[e]	AA	S	2.00	2,443	10.5	28.2	40.7	4.50	35.0	(3.7)	11.5	10.1	1.3	89.0
Fairfax[e f]	AA+	S	2.00	2,926	7.5	18.3	40.6	2.50	13.7	(1.0)	7.8	6.7	4.5	163.0
Fresno	A–	N	4.90	2,789	12.5	22.9	0.5	0.00	14.7	(7.3)	15.3	13.8	2.2	67.9
Gilroy	AA-	S	5.70	6,754	9.0	20.3	76.6	69.56	17.7	(15.2)	15.0	13.0	3.7	98.3
Glendale	AA+	S	1.70	2,010	1.0	17.1	37.8	5.00	13.5	1.3	11.6	10.4	(0.1)	102.0
Hayward	AA+	S	3.30	3,577	2.3	17.3	24.5	3.90	(3.5)	(1.7)	12.2	10.6	3.1	85.0
Lodi	AA	S	2.20	1,603	4.0	16.6	14.4	1.01	7.1	(5.8)	13.4	11.5	5.6	81.8
Long Beach	AA	S	3.20	3,090	9.6	25.3	12.7	1.90	17.1	(5.7)	14.5	13.1	(0.1)	89.3
Los Angeles	AA-	S	4.10	4,683	8.5	25.9	11.2	1.32	18.5	(2.4)	14.6	13.1	(0.1)	95.2
Lynwood	BBB+	N	1.80	683	6.0	16.0	18.5	0.20	17.9	(1.3)	20.5	18.6	(0.1)	43.4
Manhattan Beach	AAA	S	0.40	1,469	6.1	16.9	36.2	4.42	17.9	1.8	4.7	4.2	(0.1)	277.0
Menlo Park	AAA	S	3.00	9,406	4.0	13.8	42.7	8.40	32.4	5.2	6.8	5.7	4.5	230.0
Modesto	AA–	S	2.25	1,349	3.6	16.6	10.2	0.66	1.7	(19.8)	14.9	13.6	1.7	80.0
Newport Beach	AAA	S	2.00	8,897	6.7	19.6	42.0	4.99	15.1	1.9	5.8	5.0	2.2	278.0
Oakland	A+	S	5.20	5,554	17.5	32.2	21.4	1.09	15.2	(6.8)	16.4	14.4	3.1	105.0
Oakley	AA–	S	3.40	2,449	6.9	10.4	56.0	4.33	15.2	(24.1)	7.9	6.7	3.1	93.0
Pasadena	AAA	S	4.30	6,547	12.3	22.9	20.3	2.70	20.3	0.9	10.2	9.1	(0.1)	132.0
Pico Rivera, City of	A+	S	3.10	1,846	4.5	12.1	38.4	0.40	14.5	(3.5)	12.3	11.1	(0.1)	62.4
Pittsburg	AA-	S	13.30	11,306	6.6	22.2	61.9	7.90	3.1	(15.7)	17.1	14.8	3.1	76.5
Riverside	AA	S	4.60	2,446	11.2	23.3	21.3	0.95	11.3	(10.1)	14.7	13.1	2.4	78.1
Rocklin	AA+	S	4.60	5,201	0.4	13.0	82.1	6.51	11.5	(11.3)	8.0	6.9	3.0	117.2
Rohnert Park	AA–	N	1.70	1,582	3.4	23.6	20.9	2.61	4.6	(8.2)	10.0	8.5	4.4	97.4
Sacramento	AA–	S	5.30	4,367	10.8	26.9	14.1	2.23	13.1	(9.3)	14.9	13.0	3.0	87.0
San Diego	AA–	S	3.20	3,894	5.1	22.9	8.9	4.15	13.8	(2.7)	10.5	9.2	3.1	112.2
San Francisco (City and County)	AA–	S	3.30	6,771	6.1	18.8	9.3	0.90	22.5	10.7	9.0	7.6	4.5	156.0
San Jose	AA+	S	3.60	4,532	10.9	31.7	23.2	2.54	13.0	(4.9)	11.2	9.7	3.7	113.9
San Juan Capistrano	AAA	S	1.20	2,194	12.4	21.2	35.7	0.78	13.3	(2.4)	8.1	7.0	2.2	143.5
San Luis Obispo	AA+	S	0.90	1,288	5.7	20.7	25.2	7.60	14.5	2.6	10.7	9.3	1.2	90.3
San Rafael	AA+	S	1.90	3,264	0.6	30.7	10.6	1.20	11.7	(0.1)	9.3	7.9	4.5	144.0
Santa Cruz	AA+	S	2.60	3,027	3.5	12.4	21.9	7.98	11.4	0.6	9.1	8.1	3.0	108.2
Santa Maria	AA+	S	0.80	519	5.3	24.1	78.9	15.28	5.4	(5.5)	13.5	12.3	0.4	63.1
Santa Monica	AAA	S	2.70	7,245	1.6	12.4	96.1	3.26	18.8	2.0	11.0	9.8	(0.1)	200.1
Vista	AA	S	5.60	3,833	8.3	13.4	45.0	10.68	8.0	(7.2)	11.7	10.3	3.1	74.0
West Hollywood	AAA	S	4.50	9,624	6.4	10.7	119.7	9.00	20.9	1.3	11.2	10.1	(0.1)	176.0
Yuba City	AA–	S	2.70	1,831	4.3	14.5	21.2	4.59	11.8	(6.1)	19.6	18.5	(1.1)	73.3
Average Fitch Rated CA City	**AA**	**S**	**3.32**	**4,359**	**6.8**	**20.3**	**34.3**	**5.64**	**14.1**	**(3.7)**	**11.7**	**10.3**	**2.0**	**119.7**

[a]Equals general obligation (GO) bond debt service plus lease debt service divided by general fund expenditures plus transfers plus GO bond debt service and/or other debt service not already included in general fund (GF) expenditures/transfers , [b]Equals GO bond debt service plus lease debt service plus pension payment (usually ARC; if CalPERS, the APC) plus OPEB pay-go divided by GF expenditures plus transfers plus GO bond debt service and/or other debt service not already included in GF expenditures/transfers. [c]Unrestricted fund balance is the sum of committed, assigned, and unassigned fund balance per GASB 545. [d]Equals cash and investments divided by liabilities-deferred revenue. [e]2011 information not available. All 2011 financial figures use 2010 data. [f]2011/2012 Marin County unemployment YoY – Year over year. S – Stable Rating Outlook. N – Negative Rating Outlook.

Appendix A: Metrics by Rating

City	ULTGO Rating	Outlook	Overall Debt as % of Full Value	Overall Debt Per Capita	2011 Debt Service as % of Operational Spending[a]	2011 Total Carrying Costs as % of Operational	Unrestricted Fund Balance as % of GF Spending (2011)[c]	Modified Quick Ratio 2011[d]	AV % Change July 2007–2009	AV % Change July 2009-2011	Unemploy-ment % July 2011	Unemploy-ment % July 2012	YoY Nonfarm Employment % Change	Per Capita Money Income (as % of CA)
Beverly Hills	AAA	S	2.7	16,518	9.0	18.3	44.2	5.87	22.2	3.4	9.3	8.3	(0.1)	229.0
Manhattan Beach	AAA	S	0.4	1,469	6.1	16.9	36.2	4.42	17.9	1.8	4.7	4.2	(0.1)	277.0
Menlo Park	AAA	S	3.0	9,406	4.0	13.8	42.7	8.40	32.4	5.2	6.8	5.7	4.5	230.0
Newport Beach	AAA	S	2.0	8,897	6.7	19.6	42.0	4.99	15.1	1.9	5.8	5.0	2.2	278.0
Pasadena	AAA	S	4.3	6,547	12.3	22.9	20.3	2.70	20.3	0.9	10.2	9.1	(0.1)	132.0
San Juan Capistrano	AAA	S	1.2	2,194	12.4	21.2	35.7	0.78	13.3	(2.4)	8.1	7.0	2.2	143.5
Santa Monica	AAA	S	2.7	7,245	1.6	12.4	96.1	3.26	18.8	2.0	11.0	9.8	(0.1)	200.1
West Hollywood	AAA	S	4.5	9,624	6.4	10.7	119.7	9.00	20.9	1.3	11.2	10.1	(0.1)	176.0
Average Fitch-Rated 'AAA' CA City			**2.6**	**7,738**	**7.3**	**17.0**	**54.6**	**4.93**	**20.1**	**1.8**	**8.4**	**7.4**	**1.0**	**208.2**
Anaheim	AA+	N	3.7	3,749	15.0	36.7	7.8	0.90	5.5	(2.2)	11.7	10.2	2.2	78.9
Arcadia	AA+	S	2.4	4,171	0.5	13.1	55.8	13.10	13.0	6.7	7.6	6.8	(0.1)	130.0
Fairfax[e f]	AA+	S	2.0	2,926	7.5	18.3	40.6	2.50	13.7	(1.0)	7.8	6.7	4.5	163.0
Glendale	AA+	S	1.7	2,010	1.0	17.1	37.8	5.00	13.5	1.3	11.6	10.4	(0.1)	102.0
Hayward	AA+	S	3.3	3,577	2.3	17.3	24.5	3.90	(3.5)	(1.7)	12.2	10.6	3.1	85.0
Rocklin	AA+	S	4.6	5,201	0.4	13.0	82.1	6.51	11.5	(11.3)	8.0	6.9	3.0	117.2
San Jose	AA+	S	3.6	4,532	10.9	31.7	23.2	2.54	13.0	(4.9)	11.2	9.7	3.7	113.9
San Luis Obispo	AA+	S	0.9	1,288	5.7	20.7	25.2	7.60	14.5	2.6	10.7	9.3	1.2	90.3
San Rafael	AA+	S	1.9	3,264	0.6	30.7	10.6	1.20	11.7	(0.1)	9.3	7.9	4.5	144.0
Santa Cruz	AA+	S	2.6	3,027	3.5	12.4	21.9	7.98	11.4	0.6	9.1	8.1	3.0	108.2
Santa Maria	AA+	S	0.8	519	5.3	24.1	78.9	15.28	5.4	(5.5)	13.5	12.3	0.4	63.1
El Paso De Robles	AA	S	2.0	2,443	10.5	28.2	40.7	4.50	35.0	(3.7)	11.5	10.1	1.3	89.0
Lodi	AA	S	2.2	1,603	4.0	16.6	14.4	1.01	7.1	(5.8)	13.4	11.5	5.6	81.8
Long Beach	AA	S	3.2	3,090	9.6	25.3	12.7	1.90	17.1	(5.7)	14.5	13.1	(0.1)	89.3
Riverside	AA	S	4.6	2,446	11.2	23.3	21.3	0.95	11.3	(10.1)	14.7	13.1	2.4	78.1
Vista	AA	S	5.6	3,833	8.3	13.4	45.0	10.68	8.0	(7.2)	11.7	10.3	3.1	74.0
Gilroy	AA–	S	5.7	6,754	9.0	20.3	76.6	69.56	17.7	(15.2)	15.0	13.0	3.7	98.3
Los Angeles	AA–	S	4.1	4,683	8.5	25.9	11.2	1.32	18.5	(2.4)	14.6	13.1	(0.1)	95.2
Modesto	AA–	S	2.3	1,349	3.6	16.6	10.2	0.66	1.7	(19.8)	14.9	13.6	1.7	80.0
Oakley	AA–	S	3.4	2,449	6.9	10.4	56.0	4.33	15.2	(24.1)	7.9	6.7	3.1	93.0
Pittsburg	AA–	S	13.3	11,306	6.6	22.2	61.9	7.90	3.1	(15.7)	17.1	14.8	3.1	76.5
Rohnert Park	AA–	N	1.7	1,582	3.4	23.6	20.9	2.61	4.6	(8.2)	10.0	8.5	4.4	97.4
Sacramento	AA–	S	5.3	4,367	10.8	26.9	14.1	2.23	13.1	(9.3)	14.9	13.0	3.0	87.0
San Diego	AA–	S	3.2	3,894	5.1	22.9	8.9	4.15	13.8	(2.7)	10.5	9.2	3.1	112.2
San Francisco (City and County)	AA–	S	3.3	6,771	6.1	18.8	9.3	0.90	22.5	10.7	9.0	7.6	4.5	156.0
Yuba City	AA–	S	2.7	1,831	4.3	14.5	21.2	4.59	11.8	(6.1)	19.6	18.5	(1.1)	73.3
Average Fitch-Rated 'AA' CA City			**3.5**	**3,564**	**6.2**	**20.9**	**32.0**	**7.07**	**11.9**	**(5.4)**	**12.0**	**10.6**	**2.4**	**99.1**
Oakland	A+	S	5.2	5,554	17.5	32.2	21.4	1.09	15.2	(6.8)	16.4	14.4	3.1	105.0
Pico Rivera, City of	A+	S	3.1	1,846	4.5	12.1	38.4	0.40	14.5	(3.5)	12.3	11.1	(0.1)	62.4
Corte Madera[f]	A	N	2.7	6,780	7.4	20.9	6.2	0.00	14.4	1.5	7.8	6.7	4.5	217.0
Fresno	A–	N	4.9	2,789	12.5	22.9	0.5	0.00	14.7	(7.3)	15.3	13.8	2.2	67.9
Average Fitch-Rated 'A' CA City			**4.0**	**4,242**	**10.5**	**22.0**	**16.6**	**0.37**	**14.7**	**(4.0)**	**13.0**	**11.5**	**2.4**	**113.1**
Lynwood	BBB+	N	1.8	683	6.0	16.0	18.5	0.20	17.9	(1.3)	20.5	18.6	(0.1)	43.4
El Monte	BBB	S	4.2	2,156	5.8	27.2	16.9	0.67	14.7	(2.2)	16.2	14.6	(0.1)	49.3
Average Fitch-Rated 'BBB' CA City			**3.0**	**1,420**	**5.9**	**21.6**	**17.7**	**0.44**	**16.3**	**(1.8)**	**18.4**	**16.6**	**(0.1)**	**46.3**

[a]Equals GO bond debt service plus lease debt service divided by general fund expenditures plus transfers plus GO bond debt service and/or other debt service not already included in general fund (GF) expenditures/transfers , [b]Equals GO bond debt service plus lease debt service plus pension payment (usually ARC; if CalPERS, the APC) plus OPEB pay-go divided by GF expenditures plus transfers plus GO bond debt service and/or other debt service not already included in GF expenditures/transfers. [c]Unrestricted fund balance is the sum of committed, assigned, and unassigned fund balance per GASB 545. [d]Equals cash and investments divided by liabilities-deferred revenue. [e]2011 information not available. All 2011 financial figures use 2010 data. [f]2011/2012 Marin County unemployment YoY – Year over year. S – Stable Rating Outlook. N – Negative Rating Outlook. RWN –Rating Watch Negative.

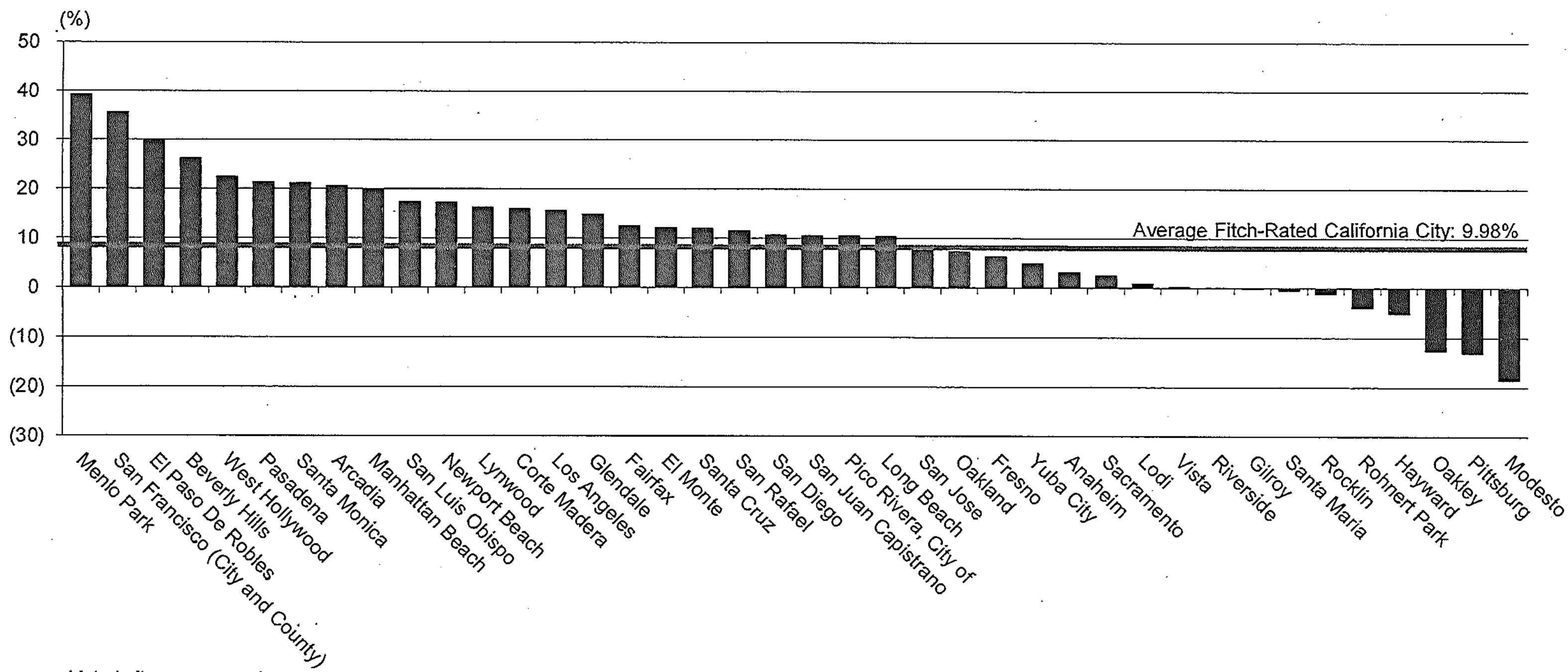
Appendix B: Labor Contracts[a]

	I: Do Labor Contracts Provide for Salary Reopeners?	II: Can Contracted Salary and Wage Increases Be Unilaterally Suspended or Eliminated?	III: Are There Provisions in Existing Agreements That Require Increased Payments in Later Years?	IV: Are There No-Layoff and/or No-Furlough Clauses in Labor Contracts?	V: Are Public Safety Contracts Subject to Binding Arbitration?	VI: Are Other Contracts Subject to Binding Arbitration?	VII: Is Regional Compensation Consideration Required in Salary and Wage	VIII: Are There Any Recent or Pending Legal Actions Related to Labor Contracts?
Anaheim	No	No	No	Yes (but only in one contract)	Yes (only fire contract)	No	No	No
Arcadia	No	No	No	No	No	No	No	No
Beverly Hills	No	No	No	No	Yes	Yes	Yes	No
Corte Madera	No	No	No	No	No	No	No	No
El Monte	No	No	Yes	No	No	No	No	No
El Paso De Robles	No	No	Yes (for police)	No	No	No	No	No
Fairfax	No	No	No	No	No	No	No	No
Fresno	No	No	Yes (for public safety)	Yes (for public safety)	No	No	Yes	No
Gilroy	No	No	No	No	Yes	No	No	No
Glendale	Yes	No	Yes	No	No	No	No	Yes
Hayward	Yes (to a limited extent)	No	No	No	Yes (only fire contract)	No	Yes (for public safety)	No
Lodi	No	No	No	No	No	No	No	No
Long Beach	Yes	No	Yes	Yes (through fiscal 2012)	No	No	No	Yes
Los Angeles	No	Unknown (never been tested)	No	Yes (for two miscellaneous contracts only)	Yes	Yes	No	Yes
Lynwood	No	Yes (after "fact finding")	No	No	No	No	No	No
Manhattan Beach	No	No	No	No	No	No	No	No
Menlo Park	No	No	No	No	Yes	Yes	No	No
Modesto	No [b]	No	No	No (but fire contract has constant staffing clause)	Yes	No	No	No
Newport Beach	Yes (for miscellaneous public safety)	Yes [c]	Yes	No	No	No	No	No
Oakland	No	No	Yes	No	Yes	No	No	No
Oakley	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Pasadena	Yes	No	Yes	No	No	No	Yes (for public safety and management)	Yes
Pico Rivera, City of	Yes (next fiscal year)	No	No	No	No	No	No [f]	No
Pittsburg	No	No	No	No	No	No	Yes	No
Riverside	Yes	No	No	No	No	No	No	No
Rocklin	No	No	No	No	No	No	Yes (for public safety)	No
Rohnert Park	Yes	No	No	No	No	No	No	No
Sacramento	No	No	No	Yes	Yes	No	Yes	No
San Diego	No	No	No	No	No	No	Yes	No [d]
San Francisco (City and County)	Yes (only for two labor agreements)	No	No	No [e]	Yes	Yes	Yes (but it is nonbinding)	Yes
San Jose	Yes (for a portion of bargaining units)	No	No	No	Yes	No	No	Yes
San Juan Capistrano	No	No	No	No	No	No	No	No
San Luis Obispo	No	No	No	No	No	No	No	Yes
San Rafael	No	No	No	No	Yes (only for non-compensation items)	Yes (only for non-compensation items)	Yes (but it is nonbinding)	Yes
Santa Cruz	No	No	No	No	Yes (for fire only)	No	No	No
Santa Maria	Yes	Yes	No	No	No	No	Yes	No
Santa Monica	No	No	No	No	No	No	Yes (for police only)	No
Vista	No	No	No	No	No	No	No	No
West Hollywood	Yes	No	No	No	Yes	Yes	Yes	No
Yuba City	Yes	No	No	Yes	No	No	No	No

RED = Decreases city's financial flexibility. GREEN = increases city's financial flexibility. Blue = This factor could provide more or less financial flexibility depending on the terms of the contracts (for V, VI, and VII) or the outcome (for VIII).
[a]Answers represent responses from issuers to a Fitch questionnaire. [b]But some labor groups have agreed to participate in midcontract discussions. [c]In exchange for increased employer retirement contributions. [d]But "unfair labor practice" claims are related to recent pension reform. [e]Restrictions against furloughs, but no restrictions against layoffs. [f]City agrees to salary survey, but action not required. N.A. – Not applicable (employees are non-unionized).

Appendix C

AV Change 2007–2011



Sources: Listed city governments.