

RatingsDirect®

Summary:

Torrance, California; Appropriations

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Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

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Credit Profile

US\$39.465 mil certs of part (Refunding And Capital Projs) ser 2014A due 06/30/2044

Long Term Rating AA/Stable New

Torrance certs of part ser A&B

Unenhanced Rating AA(SPUR)/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating and stable outlook to Torrance, Calif.'s series 2014A capital projects and refunding certificates of participation (COPs).

The city's general creditworthiness is based on Standard & Poor's local GO criteria, published Sept. 12, 2013, on RatingsDirect.

At the same time, Standard & Poor's affirmed its 'AA' rating, with a stable outlook, on Torrance's existing COPs.

The rating reflects our opinion of Torrance's:

- General creditworthiness, and
- Covenant to budget and appropriate lease payments.

COPs represent an interest in the city's lease payments. Through its lease agreement, Torrance has agreed to budget and appropriate annual lease payments. A debt service reserve and business interruption insurance provide additional security to the COPs.

The rating also reflects our opinion of the city's general creditworthiness, including its:

- Strong economy with strong projected per capita effective buying income and market value per capita;
- Strong and very strong financial metrics, including very strong budgetary flexibility and liquidity; and
- Strong financial management conditions.

We believe what we consider the city's high annual pension contributions somewhat offset these strengths.

Strong economy

We view Torrance's economy as strong with projected per capita effective buying income at 131% of the national level. Market value is \$164,000 per capita. The city is in Los Angeles County; 2012 county unemployment was more than 10%. We, however, view the area economy as broad and diverse, offsetting the county's high unemployment rate. The 21-square-mile Torrance is in western Los Angeles County, where it provides a range of services, including police and fire protection, library, sanitation and water, airport and bus transit, street and infrastructure construction and maintenance, and recreational activities and cultural events. The population has increased steadily over the past few

years to approximately 147,000.

Assessed value (AV) has grown by a modest average over the past several fiscal years. Unlike many California cities, Torrance experienced a mild AV decrease in fiscal 2011. AV is \$24 billion in fiscal 2014.

Very strong budgetary flexibility

Torrance has consistently maintained, what we consider, very strong budgetary flexibility. Audited fiscal 2013 indicates a \$35.663 million available reserve, or about 22% of expenditures and, what we consider, recurrent transfers out. The fiscal 2014 budget is currently balanced; based on previous years of performance and management expectations, we do not expect a major draw on reserves such that they would decrease below 15%. Torrance has some receivables based on a loan with the former redevelopment agency; we, however, understand those receivables are offset in the nonspendable portion of general fund reserves. Therefore, we do not view available reserves as having any remaining questionable receivables.

Strong budgetary performance

We view budgetary performance as strong with relatively balanced general fund and total governmental funds operations in fiscal 2013. We expect similar performance in the medium term. General fund revenue is split relatively evenly between three major revenue sources: sales, property, and utility users taxes.

Strong management conditions

We consider Torrance's management conditions strong with "good" financial management practices under its Financial Management Assessment methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. Highlights include management's comprehensive revenue and expenditure assumptions that feed into five-year financial projections and capital-outlay planning. Torrance lacks a formal debt management policy.

Very strong liquidity

Torrance has, what we consider, a very strong liquidity position with total government cash of more than 90% of total governmental funds expenditures and well in excess of 120% of total governmental funds debt service. We also view Torrance as having strong access to the external market due to its history of issuing COPs, tax and revenue anticipation notes, and tax allocation debt over the past years.

Strong debt and contingent liability position

In our opinion, Torrance's debt and contingent liability position is strong with low debt service carrying charges of less than 8% and net direct debt of about 46% of total governmental funds revenue. Torrance benefits from having, what we consider, low overall market value net debt that is below 3%. We, however, view the city's annual pension contributions a large 18.3%. Torrance has built expected increased pension contributions into its budget for its forecast years.

Torrance participates in the California Public Employees' Retirement System; it has consistently made 100% of the annual required contribution. Torrance also has an other postemployment benefits (OPEB) health plan. Pay-as-you-go OPEB costs are, what we view as, a modest 1.2% of governmental fund expenditures. We understand that Torrance has not established a separate OPEB trust but that it has set aside \$3 million to support these costs.

Strong Infrastructure Framework

We consider the Institutional Framework score for California cities required to submit a federal single audit strong.

Outlook

The stable outlook reflects Standard & Poor's view that the strength of Torrance's built-out and established property tax base provides a relatively stable core of tax revenue. We believe management's close monitoring of revenue trends and use of multiyear forecasting position Torrance to respond to revenue changes so that it will likely maintain, what we consider, its structurally balanced operations and strong reserves. We do not expect to raise the rating within the two-year outlook period due to high annual pension contributions. We, however, could raise the rating if those costs were to decrease over time.

Related Criteria And Research

Related Criteria

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

Related Research

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

Ratings Detail (As Of March 20, 2014)

Torrance certs of part (Land Aquisition Project) ser 2009

<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Unenhanced Rating</i>	NR(SPUR)	Withdrawn

Torrance 1998 rfdg certs of part dtd 12/01/1998 due 12/01/1999-2018 2023 2028

<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

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