

# RatingsDirect®

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## Summary:

# Newport Beach, California; Appropriations; General Obligation

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## Summary:

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### Credit Profile

Newport Beach certs of part		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Newport Beach ICR		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

## Rationale

Standard & Poor's Ratings Services affirmed its 'AAA' issuer credit rating (ICR) on the City of Newport Beach, Calif. In addition, Standard & Poor's affirmed its 'AA+' long-term rating on the city's series 2010A certificates of participation (COPs) and 2010B COPs based on our recently released local GO criteria. The outlook is stable.

The COPs represent an interest in the city's base rental payments, which the city covenants to budget and appropriate. Payments on the COPs come from base rental payments made by the city, as lessee, to the Newport Beach Public Facilities Financing Corp., as lessor, for the use of the city's community center, senior center, two libraries, four fire stations, police station, and corporation yard. The leased assets are consistent with our seismic risk assessment during the life of the COPs. Under the lease agreement, the city covenants to annually budget and appropriate lease payments for the use of the leased properties. Base rental payments are subject to abatement for damage or destruction, which we believe is partially mitigated by the city's covenant to maintain business interruption insurance sufficient to cover rent for 24 months.

The ratings reflect our assessment of the following factors for the city:

- We consider Newport Beach's economy to be very strong, with its projected per capita effective buying income at 296.4% of the U.S. and per capita market value of over \$500,000. The city also has access to the broad and diverse economy of Los Angeles-Long Beach-Anaheim, Calif. metropolitan statistical area (MSA), and the county unemployment rate for calendar year 2012 was below 10%, at 7.6%.
- In our opinion, the city's budgetary flexibility remains very strong, with reserves above 35% of expenditures for the past several years and no plans to significantly spend them down. Audited fiscal 2013 reserves were \$61.5 million, or over 35% of expenditures.
- The city's budgetary performance has been strong overall, in our view, with surpluses of 1.1% and 4.3% for the general fund and total governmental funds in fiscal 2013, respectively, after adjusting for transfers out for one-time projects and capital expenditures from bond proceeds.
- Supporting the city's finances is liquidity we consider very strong, with total government available cash as a percentage of total governmental fund expenditures and as a percentage of debt service both above 100%. We believe the city has strong access to external liquidity.
- We view the city's management conditions as strong with good financial practices.

- In our opinion, the city's debt and contingent liabilities profile is adequate, with total governmental fund debt service as a percentage of total governmental fund expenditures at 5%, and with net direct debt as a percentage of total governmental fund revenue at 65%, and no plans for additional debt within the next two years.
- The city participates in the California Public Employees' Retirement System to provide pension benefits for employees. It has contributed 100% of the annual required contribution (ARC) in each of the past three years. The combined ARC pension costs and other postemployment benefit pay-as-you-go costs for fiscal 2012 were 9.4% of expenditures, and we anticipate that these costs may increase in the near term.
- We consider the Institutional Framework score for California cities that file a federal single audit as strong. See Institutional Framework score for California.

## Outlook

The stable outlook reflects our view of the city's consistent financial performance and very strong economy, which is supported by strong management. We do not expect to revise the ratings within the next two years because we believe the city will maintain very strong budgetary flexibility and continue to participate in the broad and diverse Los Angeles-Long Beach-Anaheim, Calif. MSA.

## 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

Institutional Framework Overview: California Local Governments

### Ratings Detail (As Of March 3, 2014)

Newport Beach certs of part (BABs)

*Long Term Rating*

AA+/Stable

Affirmed

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