

RatingsDirect®

Summary:

Aliso Viejo, California; Appropriations

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Credit Profile

Aliso Viejo (City Hall Acquisition) ser 2006A

Unenhanced Rating

AA+(SPUR)/Stable

Affirmed

Aliso Viejo (City Hall Acquisition) ser 2006B

Unenhanced Rating

AA+(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services affirmed its 'AA+' underlying rating (SPURs) on Aliso Viejo, Calif.'s series 2006 certificates of participation (COPs). The outlook is stable.

The 'AA+' rating reflects our assessment of:

- The general creditworthiness of the city; and
- The lease structure, which includes the city's covenant to budget and appropriate annual lease payments.

The city's general creditworthiness includes our opinion of its:

- Very strong income indicators in a primarily residential community with access to the broad Orange County and Los Angeles County economies;
- History of maintaining very strong available balances;
- Low carrying charge; and
- Low funding interdependency with the federal government.

The COPs represent an interest in lease rental payments made by the city, as lessee, to the Aliso Viejo Public Facilities Corporation, the lessor, for use and possession of the leased asset, city hall.

The city of Aliso Viejo, with approximately 49,000 residents, is located in southern Orange County, about 50 miles southeast of downtown Los Angeles and 70 miles north of San Diego. Residents have access to employment opportunities both within the city itself and throughout the Orange County and Los Angeles County metropolitan areas. Leading employers in the city include UPS, Pacific Life Insurance, and Capistrano USD. The city's unemployment rate in September 2012 was only 3.8%, well below the state's 10.2% rate.

Property values have remained relatively stable in the city even through the housing downturn. The city's assessed value (AV) has grown 2% cumulatively since fiscal 2010 and fiscal 2011 when it dipped by 4% from its peak in fiscal 2009 along with some declines in home prices. Fiscal 2013 AV of \$7.6 billion corresponds with market value per capita of about \$154,500, which we consider extremely strong. The tax base is very diverse, with the top 10 property taxpayers comprising only 10% of fiscal 2013 AV and no taxpayer representing more than 1.4% of AV. Income levels

in Aliso Viejo are very strong, in our opinion, with median household effective buying (EBI) income at 176% of the nation and per capita EBI at 167% of the nation.

Aliso Viejo has maintained very strong unreserved fund balances in our view for at least the past decade. The city's assigned and unassigned general fund balance in fiscal 2012 totaled \$24.3 million, or 198% of operating expenditures, which we view as very strong. Based on audited fiscal 2012 results, the general fund posted a \$919,000 operating surplus after transfers despite slightly lower general fund revenue and higher general fund expenditures compared with fiscal 2011. The city has budgeted for a small surplus in fiscal 2013; however, city officials estimate slightly higher sales tax revenue and generally stable expenditures will contribute to an \$870,000 operating surplus and about \$25 million unassigned general fund balance, or more than 200% of estimated general fund expenditures. Property tax collections continue to represent the city's largest source of general fund revenue (42% of the total budget in fiscal 2013), followed by sales tax receipts (31%) and franchise fees (10%). General fund expenditures are primarily for law enforcement contracts (about 46% of the general fund fiscal 2013 budget), personnel services (15%), and other contract services (14%). We understand the city contracts most of its services to other government agencies and organizations; the Orange County Sheriff's Department provides police services and the Orange County Fire Authority provides fire services. The city had no redevelopment agency before the state's dissolution of all redevelopment agencies in 2012.

We consider Aliso Viejo's management practices "strong" under Standard & Poor's Financial Management Assessment (FMA). An FMA of "strong" indicates our view that practices are strong, well embedded, and likely sustainable. In addition to regular budget and investment updates to council as well as long-term financial planning and capital planning, the city maintains a formal policy to target no less than 25% of budget expenditures in its general fund.

We consider the city's overall net debt burden to be moderate on a per capita basis, at about \$4,000, and low as a percent of market value, at 2.4%. The city's annual debt service carrying charge is also low, in our opinion, at 2.6% of governmental expenditures, less capital outlay, in fiscal 2012. City officials report there are no plans to issue additional debt in the next two years.

The city participates in California Public Employees' Retirement System (CALPERS) and has contributed its full annual required contributions (ARC) for pension benefits. The pension ARC represented only 1% of total governmental expenditures in fiscal 2012. The city has no other postemployment benefits liability.

Outlook

The stable outlook reflects Standard & Poor's expectation that Aliso Viejo will continue to maintain very strong unreserved general fund balances due to relatively stable revenue and limited expenditure liability. We don't expect to change the rating in the next two years given these factors and the city's strong economic base.

Related Criteria And Research

- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011

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