FitchRatings

Fitch Rates San Diego Reg. Bldg. Auth., CA's $110MM 2016 Lease Revs 'AA+'; Affirms Outstanding

Fitch Ratings-San Francisco-02 February 2016: Fitch Ratings assigns an 'AA+' rating to the following San Diego Regional Building Authority (SDRBA), California's issuance:

--$109.6 million lease revenue refunding bonds (county operations center), series 2016A.

In addition, Fitch affirms the following San Diego County ratings:

--Implied San Diego County general obligation at 'AAA';
--$692.3 million in outstanding San Diego County pension obligation bonds (POBs) at 'AA+';
--$355.6 million in San Diego County certificates of participation (COPs) and SDRBA lease revenue bonds (LRBs) at 'AA+'.

The Rating Outlook is Stable.

The 2016 lease revenue refunding bonds are expected to sell via negotiation during the week of Feb. 1, 2016 and will refund outstanding debt for interest savings.

SECURITY
The lease revenue refunding bonds, LRBs and COPs are supported by the county's covenant to budget and appropriate lease rental payments for the use of various essential governmental properties, subject to abatement. The POBs have been legally validated as an obligation of the county imposed by law.

KEY RATING DRIVERS

LARGE AND DIVERSE TAX BASE: San Diego is the fifth largest county in the nation by population, and benefits from a large and diverse tax base with substantial ongoing development. Taxable assessed values (TAV) have improved steadily since a small decline during the last recession and home values continue to register strong year-over-year increases.

HEALTHY ECONOMY: County unemployment rates have continued to decline and compare favorably to the state average. Employment levels have risen steadily since early 2010 and exceed pre-recession peaks.

STRONG FINANCIAL POSITION: The county's general fund remains stable, with healthy fund balances. Recurring positive operating results are supported by strong, institutionalized management policies and practices, including disciplined pension funding and effective actions to limit retiree pension and healthcare costs.

LOW DEBT: Debt management is very conservative, with significant cash financing and early debt retirements, resulting in low debt levels with above-average amortization.

RATING SENSITIVITIES

STRONG FUNDAMENTALS: The rating is sensitive to shifts in fundamental credit characteristics including the county's substantial tax base and strong financial management practices. The Stable Outlook reflects Fitch's expectation that such shifts are unlikely.

CREDIT PROFILE
San Diego County is the nation's fifth most populous county with over three million residents and 18 incorporated cities. The core industries of its diverse economy include manufacturing, the military and related defense industries, and tourism. Population growth is well above the national average and employment levels have risen at a steady pace since 2010. Unemployment rates have continued to decline and at 4.8% as of November 2015 are consistent with the national average and well below than the state average of 5.7%. Wealth and income indicators for the county remain above average.

LARGE AND DIVERSE TAX BASE
The county's substantial tax base retained much of its value during the last recession despite housing price declines that exceeded the national average. Fiscal 2016 TAV is projected to increase by a strong 5.6%, contributing to a 15.4% cumulative increase over the past three years. Home values have continued to recover in the county and Zillow.com reports year over year gains of 6.8% as of December 2015, which will likely support healthy TAV growth in fiscal 2017 as well.

STRONG FINANCIAL POSITION
The county has achieved consistently strong general fund results with positive operating margins. Results for fiscal 2015 continue this positive trend, with a net operating surplus of 4.3% of general fund spending. Unrestricted fund balance at the end of fiscal 2015 was a healthy 44.1% of general fund spending and the county's fiscal 2016 budget is structurally balanced.

The county's strong financial results are supported by forward-looking management policies and practices which include clear reserve targets, disciplined funding of capital needs and long-term obligations, and conservative budgeting. In addition, the county has instituted numerous expenditure controls over the past several years, reducing both near-term and future cost pressures through strategic reductions in spending on employee and retiree benefits.

LOW DEBT
The county's longstanding practices of cash financing most capital projects and early debt defeasance contribute to very low levels of direct debt. Overall debt levels are moderate at $4,369 per capita and 3% of TAV. Amortization is above average with 71% of outstanding principal repaid within 10 years.

The county retains a substantial net pension liability of $1.95 billion, based on actuarial estimates through the end of fiscal 2014. Future liabilities appear likely to increase over the short term based on the county's reduction in its assumed investment return from 7.75% to 7.5% in 2015, with the potential for further reductions thereafter depending on the outcomes of a pending experience study.

Pension plan assets at the end of fiscal 2014 were equal to 82.7% of the county's net pension liability, assuming 7.75% investment returns. Fitch estimates a funding ratio of 76.4% for the county based on an assumption of 7% investment returns.

In 2007 the county eliminated post-retirement healthcare benefits for active employees, capping its liability for other post-employment benefits. The county's practice of fully funding its actuarially required contributions for both pensions and OPEB is a credit positive. Carrying costs for retiree benefits and debt service accounted for an affordable 13.1% of governmental expenditures in fiscal 2015.

Contact:

Primary Analyst
Stephen Walsh
Director

+1-415-732-7573
Fitch Ratings, Inc.
650 California St., 4th Floor
San Francisco, CA 94108

Secondary Analyst
Alan Gibson
Director
+1-415-732-7577

Committee Chairperson
Arlene Bohner
Senior Director
+1-212-908-0554

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Fitch recently published an exposure draft of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated Sept. 10, 2015). The draft includes a number of proposed revisions to existing criteria. If applied in the proposed form, Fitch estimates the revised criteria would result in changes to less than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published by the end of the first quarter of 2016. Once approved, the criteria will be applied immediately to any new issue and surveillance rating review. Fitch anticipates the criteria to be applied to all ratings that fall under the criteria within a 12-month period from the final approval date.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Creditscope, Lumesis and Zillow Group.

Applicable Criteria
Exposure Draft: U.S. Tax-Supported Rating Criteria (pub. 10 Sep 2015) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869942&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0NTQ1NTUwOTQsInNlc3Npb25LZXkiOiIwS1FWTFlMT0lySElQQVQyS01MWkdNV0hXRVBJQkJMTUZZNFhOT05LIn0.EsK-IWYQcJkx-6Ivukr_bDaKFrNR536ACE-j3npJX0g)
Tax-Supported Rating Criteria (pub. 14 Aug 2012) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0NTQ1NTUwOTQsInNlc3Npb25LZXkiOiIwS1FWTFlMT0lySElQQVQyS01MWkdNV0hXRVBJQkJMTUZZNFhOT05LIn0.EsK-IWYQcJkx-6Ivukr_bDaKFrNR536ACE-j3npJX0g)
U.S. Local Government Tax-Supported Rating Criteria (pub. 14 Aug 2012) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0NTQ1NTUwOTQsInNlc3Npb25LZXkiOiIwS1FWTFlMT0lySElQQVQyS01MWkdNV0hXRVBJQkJMTUZZNFhOT05LIn0.EsK-IWYQcJkx-6Ivukr_bDaKFrNR536ACE-j3npJX0g)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=998894&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0NTQ1NTUwOTQsInNlc3Npb25LZXkiOiIwS1FWTFlMT0lySElQQVQyS01MWkdNV0hXRVBJQkJMTUZZNFhOT05LIn0.EsK-IWYQcJkx-6Ivukr_bDaKFrNR536ACE-j3npJX0g)
Solicitation Status (https://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=998894)
Endorsement Policy (https://www.fitchratings.com/jsp/creditdesk/PolicyRegulation.faces?context=2&detail=31)