

RatingsDirect®

Summary:

Torrance, California; Note

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Credit Profile

US\$42.6 mil tax rev and antic nts ser 2016-17 due 07/06/2017

Short Term Rating

SP-1+

New

Rationale

S&P Global Ratings assigned its 'SP-1+' short-term rating to Torrance, Calif.'s series 2016-2017 tax revenue anticipation notes (TRANs).

The rating reflects our opinion of the city's:

- Good coverage at maturity by projected general fund balances, and
- Significant alternate liquidity that is available in the event of a general fund cash deficiency at note maturity.

Unrestricted taxes, income, revenue, cash, and other money received for, or allocable to, the general fund in fiscal 2016-2017 secure the TRANs. We understand Torrance officials intend to use TRAN proceeds to fund seasonal cash-flow deficits during the fiscal year. The notes mature on July 6, 2017.

Torrance is projecting net available general fund cash balances will likely provide what we consider good 1.62x debt service coverage (DSC) of the total repayment amount at the TRANs' maturity. The city notes that it has additional reserve designations, including program contingency and special projects. These designated reserves are available through a city council vote, and can bring ending the TRANs' coverage up to 1.66x. In addition, city management expects to have access to an estimated \$73.2 million of other borrowable funds, in the event of a cash deficiency in the general fund at the set-aside dates or note maturity.

Alternate liquidity would increase projected DSC at the TRANs' maturity to 2.84x. We understand the resolution requires pledged revenue to be segregated in a separate note repayment account. This is specified in the note as amounts sufficient to pay 50% of note principal in January 2017 and the remaining 50% of principal in May 2017, as well as 100% interest in June 2017. In our view, projected DSC at the set-aside dates is a good 1.9x in January and May 2017. City projections have interest coverage well in excess of 2.0x.

Coverage for 2016 is anticipated it be slightly higher than the city's original projections based on current estimates by the city. Projections have tended to be conservative.

For fiscal 2017, management is projecting a slight increase in revenues and expenditures over the prior-year taxes. The city projects slight increases in sales, property, and occupancy taxes. Approximately 70% of the city's general fund revenues in fiscal 2016-2017 are projected to be generated from sales tax (22.5%), property tax (20.7%), and other taxes (26.7%). Assessed value (AV) in the city has continued to increase, standing at \$27.02 billion in fiscal 2016. Management reports that a major tax generator, Exxon-Mobil, is expected to return its processing facility to 100%

capacity by July 1 (currently operating at 75% capacity) following an emergency shutdown in 2015.

We view Torrance's economy as strong, with per capita effective buying income at 125% of the national level. Median household effective buying income is very strong at 134% of the national level. The area economy is broad and diverse, with access to the Los Angeles-Long Beach-Anaheim, Calif. metropolitan statistical area (MSA). The city's unemployment rate was 3.5% as of March 2016. Torrance covers 21 square miles in western Los Angeles County, where it provides a range of services, including: police and fire protection; libraries; sanitation and water; airport and bus transit; street and infrastructure construction and maintenance; recreational activities; and cultural events. The population has modestly increased during the past few years to approximately 150,275.

Torrance has consistently maintained what we consider very strong budgetary flexibility. Audited fiscal 2015 indicates a \$45 million available reserve, or about 28.9% of expenditures. The fiscal 2016 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 the current level. Torrance has some receivables based on a loan with a former redevelopment agency, but we understand that 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.

Related Criteria And Research

Related Criteria

USPF Criteria: Short-Term Debt, June 15, 2007

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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