

**Rating Update: Moody's affirms San Ramon Valley Fire District's (CA) Aa1 Issuer Rating and Aa2 COP rating**

---

Global Credit Research - 06 May 2014

**Affects approximately \$15.4 million**

SAN RAMON VALLEY FIRE PROTECTION DISTRICT, CA  
Fire Districts  
CA

**Opinion**

NEW YORK, May 06, 2014 --Moody's Investors Service affirmed the Aa2 rating on San Ramon Valley Fire Protection District's (CA) series 2006 certificates of participation (COPs). The COPs are secured by lease payments which are not subject to abatement. Moody's has also affirmed the Aa1 general obligation equivalent Issuer Rating.

**RATING RATIONALE**

The Issuer Rating affirmation primarily reflects the district's demonstrated ability to balance its financial operations and pay down its unfunded liabilities despite increasing fixed costs. Management and unions agreed to strict costs cuts and increased employee contributions which will allow the district to do so. The Aa1 Issuer rating is bolstered by the fire district's tax base which is large, affluent and growing.

The affirmation of the COP rating primarily reflects the district's ample reserves and liquidity that are estimated to increase in the near term. The one notch rating distinction between the Aa2 rating on the district's lease-backed obligations and its Aa1 issuer rating represents the weaker security pledge for lease-backed obligations and reflects the additional risk to bondholders from the district's financial, operational, and economic conditions over the more secure general obligation pledge. A "lease pledge" is a contractual obligation, conditioned on use and/or occupancy of the leased asset, effectively on parity with other unsecured obligations. The district's issuer rating reflects what its secured general obligation rating would be if the district issued such debt.

**STRENGTHS**

- Large and growing affluent property tax base
- Ample reserves and liquidity
- Management and unions are committed to balancing financial operations amid large fixed cost increases
- Non-abatable lease payments that are relatively unique in California

**CHALLENGES**

- Large fixed costs including pension contributions that will spike in fiscal 2015
- Large unfunded OPEB liability
- Unbalanced financial operations leading to reserve draws in earlier years

**DETAILED CREDIT DISCUSSION**

**CHALLENGING FIXED COST BURDEN WILL STRESS FINANCIAL OPERATIONS IN NEAR-TERM**

The fire district has a very large fixed cost burden that is expected to increase in fiscal 2015 due to large pension contribution rate increases. The district is a participant in the Contra Costa County Employees' Retirement Association (CCCERA). In order to offset market losses during the recession and to reflect the impact of a recent decrease in discount rate from 7.75% to 7.25%, employer contribution rates will increase in fiscal 2015. Pension

contribution rates will increase by 27% totalling 95% of payroll for most of its employees. Pensions alone represent 29% of total expenses as of fiscal 2015. Total fixed costs, which include pensions, salaries, OPEB pay-go and debt service will increase in fiscal 2015 to a massive 90% of total expenditures. This high fixed cost debt burden significantly limits the district's budgetary flexibility if revenues decline.

The district's growing unfunded OPEB liability also contributes largely to the increased fixed costs. In fiscal 2013 the district's unfunded OPEB liability was a sizable \$74 million and its ARC was \$7.4 million, over 4 times the size of debt service. The district has historically funded OPEB benefits on a pay-as-you-go basis. However, the district will begin pre-funding OPEB benefits within 5 year by paying over its ARC.

Moody's adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, is \$278,283, or an above-average 5.32 times operating revenues. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities.

#### STRICT COST CUTS AND UNION NEGOTIATIONS WILL LEAD TO SURPLUSES AND INCREASED RESERVES

To balance financial operations amid increased pension contributions, district management and unions have agreed to hold off on raises, cut positions through attrition and contribute 8% towards health care premiums and contributed upwards of 12% towards pensions. These concessions will save the district approximately \$2.1 million in fiscal 2014 and grow to \$4.6 million by fiscal 2016. The labor contracts expire in June 2018. These cost cuts along with large increases (about 5-6% per year) in property tax revenues will allow the district to have surpluses in fiscal 2014 and fiscal 2015. Despite the increased pension costs, the district estimates that fiscal 2014 will end with a \$4.2 million surplus that will increase General Fund reserves to a robust 74% of revenues. The district estimates that it will end fiscal 2015 with a \$1.5 million surplus after it begins to pay down its OPEB liability. In addition to paying off its OPEB liability, the district also plans on funding a rainy day fund to manage fixed costs in the event that property tax revenues decline.

#### STRONG LOCAL ECONOMY AND AFFLUENT TAX BASE ARE GROWING

The District serves approximately 170,000 residents of Danville (Issuer Rating Aa1), San Ramon, and various surrounding, affluent communities located in the economically diverse and expanding portion of southwestern Contra Costa County. District residents benefit from employment opportunities throughout the San Francisco Bay Area and in the District itself. Housing demand within the District has been strong, causing the tax base to appreciate rapidly. In fiscal 2014 the District's Assessed Value (AV) grew 5.4%, bringing the total AV to a large \$35.7 billion. The County estimates that fiscal 2015 will have a similar increase bringing AV to approximately \$37.5 billion. AV will likely continue to increase due to the disparity between average AV and current market prices. Currently the tax base also has over \$3.5 billion worth of potential AV increases limited by Prop 8 restrictions. The resulting estimated AV per capita is more than \$206,000, which is notably higher than the median of \$133,608 for rated fire districts in California. Wealth levels are correspondingly high. As of the 2010 census, the average median family and per capita incomes of the cities of San Ramon and Danville were 222.9% and 203.9% of the US respectively. Moody's believes that the socioeconomic profiles for the surrounding communities are likely even stronger.

#### MINIMAL DEBT BURDEN

The district's debt burden is a very minimal \$15.4 million which is less than 0.1% of AV. The district has two COPs and a lease purchase agreement. In total, the peak debt service payment will be a very manageable at 3.5% of annual General Fund revenues. The Series 2006 COPs are the only Moody's rated bonds and have non abatable lease payments and cash funded reserve worth \$600,000. The one notch distinction between the COPs rating and the Issuer Rating reflects, in part, the non abatable lease payments, ample reserves and essentially of the leased assets (four fire houses). Amortization of principal is rather slow at 53.3% in 10 years but allows for minimal debt service payments.

What could move the rating - UP

-Significantly decrease fixed costs while maintaining current reserve levels

What could move the rating - DOWN

-Any additional increase in fixed costs beyond fiscal 2016

-Return to past trend of unbalanced financial operations and reserve declines

-Large and prolonged decline in assessed value

#### KEY STATISTICS

Full value (2014): \$35.7 billion

Full value per capita: \$206,139

Median family income (Danville and San Ramon average) (as % of the U.S.): 200% of the U.S.

Fund balance as % of revenues: 62.8%

5-year dollar change in fund balance as % of revenues: -3.4%

Cash balance as % of revenues: 68.5%

5-year dollar change in cash balance as % of revenues: -3.1%

Institutional framework: A

5-year average of operating revenues / operating expenditures: 0.99x

Net direct debt / full value: 0.04%

Net direct debt / operating revenues: 0.29x

3-year average of Moody's adjusted net pension liability / full value: 0.73%

3-year average of Moody's adjusted net pension liability / operating revenues: 4.73x

The principal methodology used in the issuer rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the lease-backed rating was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

#### REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moodys.com](http://www.moodys.com).

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see [www.moodys.com](http://www.moodys.com) for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on [www.moodys.com](http://www.moodys.com) for additional regulatory disclosures for each credit rating.

#### **Analysts**

Shelby Schwabauer  
Lead Analyst  
Public Finance Group

Moody's Investors Service

Robert Azrin  
Backup Analyst  
Public Finance Group  
Moody's Investors Service

Kristina Alagar Cordero  
Additional Contact  
Public Finance Group  
Moody's Investors Service

**Contacts**

Journalists: (212) 553-0376  
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
USA

**MOODY'S**  
INVESTORS SERVICE

© 2014 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATION") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.