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Summary:
Beverly Hills Public Financing Authority, California Beverly Hills; Appropriations; General Obligation

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Credit Profile		
US$57.555 mil lse rev bnds (Beverly Hills) ser 2012A due 06/01/2037		
Long Term Rating	AA+/Stable	New
Beverly Hills ICR		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to the Beverly Hills Public Financing Authority, Calif.'s series 2012A lease revenue bonds issued on behalf of Beverly Hills. At the same time, Standard & Poor's affirmed its 'AA+' long-term rating and underlying rating (SPUR) on the authority's appropriation debt outstanding and affirmed the 'AAA' issuer credit rating (ICR) on the city. The outlook is stable.

The rating on the lease revenue bonds reflects our opinion of the city's:

- Covenant to budget and appropriate lease payments and
- Annual appropriation risk.

The credit strengths of Beverly Hills, in our opinion, include the city's:

- Diversified and strong economic and revenue base,
- Very strong financial performance and reserves levels, and
- Strong and consistent financial management performance.

We understand that the city plans to use the bond proceeds to refinance the previously issued series 2007 lease revenue bonds. The bonds are secured by a first lien on lease payments made by the city, as lessee, to the Beverly Hills Public Financing Authority, as lessor, for the use and possession of the leased assets, the Public Works parking structure, the city library, and a vehicle maintenance shop, through a lease-leaseback structure, whereby the city will make periodic lease payments sufficient to amortize the bonds through June 1, 2037. The city has covenanted to budget and appropriate annual lease payments for the use of the project. The authority assigns all sublease payments to the trustee. The city may abate lease payments in the event of damage or destruction to the assets. To mitigate the risk of abatement in such a case, the city has covenanted to maintain at least 24 months of rental interruption insurance. The bond structure does not provide for a debt service reserve fund.

Beverly Hills is located in western Los Angeles County and is surrounded by Los Angeles. Widely known for its luxurious neighborhoods, the city also has an underlying economy we consider strong with economic activity linked to high-end retail and the entertainment industry. The community has high income in our view, as evidenced by per capita and median household effective buying income at 170% and 277% of the national levels, respectively. Wealth in the area, as measured by per capita market value for fiscal 2012, reached a very high $622,421, primarily due to large, high-value condensed commercial and residential housing. The overall trend in property values continues to show growth, and total assessed value (AV) in 2012 increased by nearly 1.2% to reach more than $21.3 billion, reflecting an average growth rate of 8.6% a year since 2007. Management projects that fiscal 2013 AV will increase slightly, a result of positive inflationary adjustments and new construction activity in the city.

Tax revenues for the city, which consist of property tax, sales tax, transient occupancy tax (TOT), and business tax revenues, together account for about 76% of the city's total general fund revenues, increased by nearly 3% in fiscal 2011 to $125.6 million. Management expects an overall slight, 1% decrease in tax revenues for fiscal 2012, mainly as a result of lower property tax revenues. Property tax revenues decreased by 2.4% for fiscal 2011 and are projected to decrease by nearly 7% for fiscal 2012 stemming from granted AV appeals and property tax refunds. The city has had an operating surplus for the past six years. Of the four major tax revenue sources in fiscal 2011, the proportional allocation of the economically sensitive revenues -- sales and TOT -- both experienced increases, of 12.1% and 13.4%, respectively, which is a reversal from the previous year's declining trend. The city is projecting a growth trend in the overall city economy in fiscal 2012 and, based on mid year collections, is projecting sales tax and TOT to increase by 4.3% and 5.6%, respectively, to $23 million and $28.1 million. The city also imposes a business tax on local business (based on either gross revenue of the business or per employee, depending on business type). Business tax revenue has remained at $34 million to $35 million during the past three fiscal years. Overall general fund operations for the city in fiscal 2012, as stated by the city's revised projections, show a net positive result, as the growth trend continues resulting in an operating surplus of $1 million. In our view, these figures reflect the city's economic strength bolstered by consistent growth with a diverse revenue stream, together with a strong tourism industry that has given the city mainstream popularity.

The city's 10 largest property taxpayers account for approximately 8.9% of total AV, a statistic that we would characterize as showing a very diverse tax base, yet 80% of those taxpayers are in the real estate investment, entertainment, and hospitality industries.

The general fund balance has exhibited continued growth during the past four years. The historical available general fund balance has been at a level we consider to be very strong, of more than 40% of expenditures for the past few years. In fiscal 2009, the city adopted general fund balance reporting according to Governmental Accounting Standards Board (GASB) Statement No. 54. We calculated the sum of the city's committed, assigned, and unassigned fund balances for fiscal 2011 to be $73.8 million, or 44% of expenditures, which we consider very strong. For the same fiscal year, the city's total fund balance was $98 million, which we consider to be a very strong 66% of expenditures. A large spike in available reserves for fiscal 2011 was a result of a return of approximately $32 million of the city's cash that was held with a trustee as collateral for a previous financing obligation. The city projects maintaining the same level of reserves for fiscal 2012. We believe the city's very strong fund balance allows management adequate flexibility to allocate resources from the general fund if unexpected needs arise. With regard to dealing with the systematic economic pressures, management has indicated that creative revenue generating ventures and operational efficiencies have allowed it to avoid cutting its labor force. We understand that public safety and service remain priorities for the city and have been among the very few areas where the city has added personnel from other departments.

We consider the city's management practices "strong" under our Financial Management Assessment (FMA) methodology. An FMA of "strong" indicates that, in our view, practices are strong, well embedded, and likely sustainable.

The overall debt burden for the city is, in our view, extremely high at $18,237 per capita, but this translates into 2.9% of AV, which we consider low. Although debt per capita is extremely high, wealth indicators for the city, in our view, can support the burden. The city's other post-employment benefit (OPEB) liability for fiscal 2009 totaled $50.7 million. The city has also set aside $24.3 million in an employee benefit fund (the Internal Service Fund), but because the funds are not in an irrevocable trust, GASB rules do not allow it to be considered toward the funding status of the actuarial liability. The city employees participate in Public Employee's Retirement System (PERS). The city's pension and OPEB expense is moderate in our view, at 11.1% of governmental expenditures.

Outlook

The stable outlook reflects our expectation that the city will maintain its financial strength, led by sound financial management policies and practices. We do not anticipate that the city will deviate from its sound financial practices and, therefore, do not expect to change the rating during our two0year outlook horizon.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

Ratings Detail (As Of March 28, 2012)		
Beverly Hills Pub Fincg Auth, California		
Beverly Hills, California		
Beverly Hills Pub Fincg Auth (Beverly Hills) lse rev bnds		
Long Term Rating	AA+/Stable	Affirmed
Beverly Hills Pub Fincg Auth (Beverly Hills) lse rev bnds Taxable (Office Building Project) ser 2008B due 06/30/2035		
Long Term Rating	AA+/Stable	Affirmed
Beverly Hills Pub Fincg Auth (Beverly Hills) lse rev bnds (Cap Improv Proj)		
Long Term Rating	AA+/Stable	Affirmed
Beverly Hills Pub Fincg Auth (Beverly Hills) lse rev bnds (Office Building Project) ser 2008A due 06/30/2038		
Long Term Rating	AA+/Stable	Affirmed
Beverly Hills Pub Fincg Auth (Beverly Hills) 2010 lse rev bnds (taxable BABs) (Beverly Hills) (Various Projs) ser C due 06/01/2040		
Long Term Rating	AA+/Stable	Affirmed
Beverly Hills Pub Fincg Auth (Beverly Hills) 2010 lse rev bnds (taxable) (Beverly Hills) (Various Projs) ser B due 06/01/2040		
Long Term Rating	AA+/Stable	Affirmed
Beverly Hills Pub Fincg Auth (Beverly Hills) 2010 lse rev bnds (Beverly Hills) (Various Projs) ser A due 06/01/2040		
Long Term Rating	AA+/Stable	Affirmed

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