MOODY'S
INVESTORS SERVICE

CREDIT OPINION
7 June 2016

New Issue

Rate this Research

Analyst Contacts

Christian Ward 415-274-1721
Analyst
christian.ward@moodys.com

William Oh 415-274-1739
AVP-Analyst
william.oh@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653

Asia Pacific 852-3551-3077

Japan 81-3-5408-4100

EMEA 44-20-7772-5454

Ventura (County of), CA

New Issue – Moody's upgrades Ventura County, CA to Aaa

Summary Rating Rationale

Moody's Investors Service has upgraded to Aaa from Aa1 the Issuer Rating to Ventura County, CA. Concurrently, we have assigned an Aa2 rating to Ventura County, CA's Lease Revenue Refunding Bonds, Series 2016A totaling approximately $42.4 million and issued by the Ventura County Public Financing Authority. We have also upgraded to Aa2 from Aa3 the rating on the county's other, Moody's-rated lease revenue bonds totaling approximately $407.3 million.

The upgrade of the Issuer Rating to Aaa reflects the continued, moderate growth of the county's exceptionally large tax base, supported by the county's core industries of Biotechnology, Health Care, Telecommunications, Military, and Agriculture. The upgrade also reflects continued operating surpluses for the last six fiscal years, and during one of the worst economic recessions in recent history, resulting in exceptionally stable reserve and liquidity levels. The upgrade is supported by our expectation for continued operating stability given the county's conservative budgeting and expenditure policies. The county has a low and manageable general fund-supported debt profile. The county's annual pension expense is elevated, though reflects the county's aggressive amortization schedule to fully fund its pension liability in 15 years. The rating also reflects the county's very low unfunded OPEB liability.

The Issuer Rating reflects what the county's general obligation bond offering would be if the county were to issue such debt. Were the county to issue general obligation bonds, the offering would be secured by an unlimited property tax pledge of all taxable property within the county's boundaries.

The Aa2 lease-supported obligations are secured by standard, California abatement leases. The two notch distinction between the general obligation ratings represents the weaker security pledge for lease-backed obligations and the additional risk to creditors from the county's financial, operational, and economic conditions compared to the more secure general obligation pledge.

Credit Strengths

- Stable and large assessed valuation
- Diverse local economy
- Strong general fund reserves and liquidity

» Proactive fiscal management

Credit Challenges

» Elevated pension expenditures

» Slower economic growth than other California coastal counties

Rating Outlook

The county's stable outlook reflects the expectation for stability in the county's tax base and financial metrics.

Factors that Could Lead to an Upgrade

» N/A

Factors that Could Lead to a Downgrade

» Deterioration in the county's financial position

» Protracted decline in the district's assessed valuation

» Significantly increased debt burden

Key Indicators

Ventura (County of) CA	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 105,384,301	$ 105,283,938	$ 106,014,655	$ 108,575,415	$ 116,920,754
Full Value Per Capita	$ 126,874	$ 126,180	$ 126,265	$ 128,890	$ 137,866
Median Family Income (% of US Median)	133.9%	134.1%	134.1%	134.1%	134.1%
Finances					
Operating Revenue ($000)	$ 861,849	$ 871,410	$ 896,558	$ 922,004	$ 974,755
Fund Balance as a % of Revenues	17.9%	19.1%	21.2%	20.8%	25.4%
Cash Balance as a % of Revenues	27.0%	28.7%	31.3%	31.0%	33.9%
Debt/Pensions					
Net Direct Debt ($000)	$ 109,391	$ 110,160	$ 96,352	$ 71,581	$ 69,916
Net Direct Debt / Operating Revenues (x)	0.1x	0.1x	0.1x	0.1x	0.1x
Net Direct Debt / Full Value (%)	0.1%	0.1%	0.1%	0.1%	0.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	2.2x	2.9x	3.2x	3.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.8%	2.5%	2.7%	2.7%

Source: Moody's Investors Service

Recent Developments

Moody's is currently evaluating comments we received on our proposed, methodological revisions to rating state and local government lease-backed obligations. Our comment period closed on December 2, 2015, and the publication of the final, revised methodology could affect the county's lease-backed obligation ratings.

Detailed Rating Considerations

Economy and Tax Base: Large, Growing, and Diverse Tax Base

The upgrade to Aaa reflects Ventura County's large, diverse, and growing tax base that reflects remarkable stability. Economic growth continues in Ventura County, though the pace lags the state and U.S. averages. The county's population continues grow, though modestly, growing 7.2% from 2006 to 2016. The county's economy is supported by a variety of industries, including Biotechnology, Health Care, Telecommunication, Military, and Agriculture, which have all steadily recovered since the Great Recession. Remarkably, no one industry dominates the county's economic activity. We expect that these industries will continue to foster a healthy economic environment, which will provide healthy revenues for county operations. Moving forward, we expect that economic growth for the county will be slow, but steady. As evidenced by the county economy during the Great Recession, we anticipate that any negative economic trends will be similarly muted.

The county's assessed value (AV) continues to increase and grew a modest 2.8% to $120.3 billion in fiscal 2016. We expect that AV will continue to increase in fiscal 2017 to approximately $124.6 billion. Part of the county's AV stability is due to a county initiative established in 1998 which outlines that all open agricultural land cannot be rezoned except with a countywide vote of approval. This restriction on growth prevented the rapid expansion of housing stock and subsequent collapse in prices that was seen in other California counties.

The county's economic health is reflected in its relatively low and declining unemployment rate. The county had a 5.1% unemployment rate as of February 2016, not much different than the nation (5.2%) and the state (5.7%) for the same period.

Socioeconomic indicators for the county are also strong. Median family income measures at 134.1% of the US average.

Financial Operations and Reserves: Exceptionally Stable Financial Profile Expected

The upgrade largely reflects the county's exceptionally stable financial profile, which will continue given the county's conservative budgeting and expenditure policies. The county's financial profile benefits from year over year operating surpluses for at least the last six years. Fueling these operating surpluses have been continued revenue increases in the county's taxes and primary revenue streams since fiscal 2011.

The upgrade to Aaa also reflects how the county closely manages expenditures to match local, state, and federal revenues and proactively eliminates or adjusts programs when ongoing funding is removed. County officials maintain a policy of not funding ongoing programs with one-time sources, including salary and benefit increases of county employees. Another county objective is to maintain discretionary reserves of 15% of annual appropriations.

The county's available reserve levels reflect the county's financial stability and operating surpluses. As of the fiscal 2015 audit, the county had an available fund balance (unassigned, assigned, committed, restricted debt service fund) of $247.2 million (25.4% of revenues). Favorably, the county's unassigned reserve balance continues to grow and become a larger portion of the county's overall reserve levels; unassigned reserves were 47% of the county's total fiscal 2015 general fund balance. We expect the unassigned portion of the county's reserve level to continue to increase in fiscal 2016 and fiscal 2017.

Revenues will continue to increase in fiscal 2017 in the county's main revenue streams of property and sales taxes. Most other revenue sources also reflect increases in fiscal 2017. These increased revenues will fuel another anticipated operating surplus and stable reserve levels for fiscal 2017.

Part of the county's conservative financial practices relates to the general fund support of the county's medical facility. The county’s medical center receives a relatively small annual subsidy of $15.2 million from the county’s general fund and this amount as a percentage of hospital revenues is projected to decrease slightly in future years. The county’s general fund subsidy to the medical center was approximately 1.6% of fiscal 2015 operating revenues.

LIQUIDITY

The county has very healthy liquidity levels that will also likely be stable. Net cash and investments was $330.6 million (33.9% of revenues) in fiscal 2015. The county's liquidity position benefits from more than $170 million in the county's Risk Management Fund available for borrowing for liquidity purposes.

Debt and Pensions: Low and Manageable Debt Burden; High Pension Liability with Aggressive Amortization

County debt levels are low and manageable and we do not anticipate any significant debt issuance in the next few years. The county has a low general-fund supported debt burden of approximately 2.8% of fiscal 2015 operating revenues, including the current refunding.

DEBT STRUCTURE

All of the county's outstanding debt issuances are fixed-rate obligations.

The leased asset for the current refunding is the county's Pre-Trial Detention Facility (PTDF), with an annual fair rental value at $12.5 million and a replacement cost estimated at $133.0 million. The current refunding will have all the typical California abatement lease security features, including 24 months rental interruption insurance, public liability insurance, property and casualty insurance, and CLTA leasehold title insurance. No additional bonds are allowed under the lease indenture. The current refunding will not have a debt service reserve fund, but we feel the county's stable reserves and healthy liquidity levels will offset this weakness.

DEBT-RELATED DERIVATIVES

The county is not party to any debt-related derivatives.

PENSIONS AND OPEB

The county is actively working to reduce its unfunded pension liability, resulting in elevated employer contributions as a percentage of revenues. The county provides pension benefits through its Ventura County Employees' Retirement Association Plan (VCERA) and Supplemental Retirement Plan (SRP). The county's contribution to the VCERA plan was $175.1 million in fiscal 2015, which is an elevated 18.0% of fiscal 2015 operating revenues.

Moody's adjusted net pension liability (ANPL) for the county, under our methodology for adjusting reported pension data, is $2.9 billion, or an above-average 3.2 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 county's reported liability information, but to improve comparability with other rated entities.

We note, however, that the county's unfunded pension liability has an aggressive fixed 15-year amortization. Also favorable, the county's pension plan has a funded ratio of 83.1%.

The county offers postemployment benefits, though has a very low unfunded OPEB liability of $16.0 million, or 3.3% of covered payroll. The county contributed $1.2 million in pay-go contributions in fiscal 2015 (0.1% of revenues), which was 79% of the annual OPEB cost.

Management and Governance

The county has a strong management team, which will ensure stable operating performance in even the most difficult of economic and financial circumstances.

California counties have an institutional framework score of "A," or moderate. Revenues consist primarily of state aid, property taxes and sales taxes, which are moderately predictable overall. Property taxes are very predictable, given the state's constitutional formula, known as Proposition 13, while state aid and sales taxes are economically sensitive. Counties' ability to raise revenues is moderate and almost always requires voter approval. Most county expenditures are highly predictable state and federal mandates. If the state fails to fund a mandated service, the county is not legally obligated to provide that service, resulting in moderate expenditure reduction ability.

Legal Security

The legal security for the current issuance are base rental payments made by the county to the Ventura County Public Financing Authority for use and occupancy of the Pre-Trial Detention Facility with replacement value estimated at $133.0 million.

Use of Proceeds

The Lease Revenue Refunding Bonds, Series 2016A will be used to finance the prepayment of the county's 2009 Certificates of Participation.

Obligor Profile

Ventura County is located northwest of Los Angeles County and is bordered Kern and Santa Barbara Counties and the Pacific Ocean. The county covers an area of 1,873 square miles, including 42 miles of Pacific Ocean shoreline. The county population is 856,508.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. An additional methodology used in this rating was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 2

Ventura (County of) CA

Issue	Rating
Lease Revenue Refunding Bonds, Series 2016A	Aa2
Rating Type	Underlying LT
Sale Amount	$42,375,000
Expected Sale Date	06/22/2016
Rating Description	Lease Rental: Abatement

Source: Moody's Investors Service

REPORT NUMBER 1029846