



SENT TO COUNCIL:

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City Manager's Office

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Julia H. Cooper

SUBJECT: RECENT RATING AGENCY
INQUIRIES

DATE: September 4, 2012

Approved  Date 9/4/12

INFORMATION

In recent months, the City has received an increasing number of inquiries from the three rating agencies (Moody's Investor Services, Standard & Poor's and Fitch Ratings) requesting updates on various aspects of the City organization including our current financial position and future outlook, redevelopment dissolution impacts, labor relations and status of implementation of voter approved pension reform measures. We have continued to keep the Council informed of the outcomes of the rating agencies' surveillance work through informational memos in the event of rating changes and in the City Manager's Weekly report when existing ratings are confirmed.

The most recent surveillance underway is a general fund credit review with Fitch Ratings. This review is part of an overall review of California municipal credits and a specific review of the City's general fund. An interdepartmental team has been assembling responses to questions ranging from the estimated ending general fund balance for FY 2011-12, information about Measure B implementation, and status of labor relations. The rating review process is not isolated to the presentation of the "numbers" but includes examination of administrative and management factors, i.e. the management and legislative willingness to make difficult decisions.

The attached table provides a summary of the rating agencies' inquiries over the last several months and related actions. Updates on future rating actions will be provided to the City Council either through informational memos or updates in the City Manager's Weekly report.

/s/
JULIA H. COOPER
Acting Director, Finance

For questions, please contact Julia H. Cooper, Acting Director of Finance at (408) 535-7011.

**Credit Rating Agency Inquiries and Related Actions
(March – August 2012)**

<u>Date</u>	<u>Credit</u>	<u>Rating Agency</u>	<u>Action</u>	<u>Prior Rating</u>	<u>New Rating</u>
3/26/12	General Obligation ¹	Moody's	Downgrade Stable Outlook	Aaa	Aa1
3/26/12	General Fund Lease Revenue ¹	Moody's	Downgrade Stable Outlook	Aa2	Aa3
4/11/12	General Obligation ²	Standard & Poor's	Downgrade Negative Outlook	AAA	AA+
4/11/12	General Fund Lease Revenue ²	Standard & Poor's	Downgrade Negative Outlook	AA+	AA
4/20/12	Redevelopment – 80% Merged Area (surety reserve fund) ³	Fitch	Downgrade Negative Outlook	BBB-	BB+
4/20/12	Redevelopment – 80% Merged Area (cash reserve fund) ³	Fitch	Affirmed Negative Outlook	BBB-	BBB-
4/20/12	Redevelopment – 20% Housing Set-Aside ³	Fitch	Affirmed Stable Outlook	A	A
6/5/12	Redevelopment – 80% Merged Area (surety reserve fund) ⁴	Fitch	Downgrade Negative Outlook	BB+	BB-
6/5/12	Redevelopment – 80% Merged Area (cash reserve fund) ⁴	Fitch	Downgrade Negative Outlook	BB	BBB-
6/5/12	Redevelopment – 20% Housing Set-Aside ⁴	Fitch	Affirmed Negative Outlook	A	A
6/6/12	Redevelopment – 80% Merged Area ⁴	Standard & Poor's	Credit Watch Negative Implication	BBB	BBB
6/6/12	Redevelopment – 20% Housing Set-Aside ⁴	Standard & Poor's	Credit Watch Negative Implication	A	A

¹ Information Memo, "2012 Rating Agency Action – Moody's Investors Services", March 28, 2012;
<https://www.piersystem.com/external/content/document/1914/1353303/1/03-28-12%20Finance.PDF>

² Information Memo, "2012 Rating Agency Action – Standard & Poor's" April 12, 2012;
<https://www.piersystem.com/external/content/document/1914/1366019/1/04-13-12%20FINANCE.pdf>

³ Information Memo, "2012 Rating Agency Action – Fitch Rating", May 1, 2012;
<https://www.piersystem.com/external/content/document/1914/1420899/1/05-02-12%20Finance.PDF>

⁴ Information Memo, "2012 Rating Agency Actions Related to Redevelopment Agency Debt Obligation", June 8, 2012;
<https://www.piersystem.com/external/content/document/1914/1464407/1/06-08-12%20Finance.PDF>

<u>Date</u>	<u>Credit</u>	<u>Rating Agency</u>	<u>Action</u>	<u>Prior Rating</u>	<u>New Rating</u>
6/8/12	Redevelopment – 80% Merged Area (non-investment grade surety policy reserve fund) ⁴	Moody's	Downgrade Under Review for further downgrade	Baa3	Ba3
6/8/12	Redevelopment – 80% Merged Area (cash or investment grade surety policy reserve fund) ⁴	Moody's	Downgrade Under Review for further downgrade	Baa2	Ba2
6/8/12	Redevelopment – 20% Housing Set-Aside ⁴	Moody's	Downgrade Under Review for further downgrade	A3	Baa3
7/20/12	Airport Revenue ⁵	Fitch	Downgrade Stable Outlook	A-	BBB+
7/22/12	Clean Water Financing Authority ⁶	Standard & Poor's	Affirm Stable Outlook	AAA	AAA
7/24/12	Parking Revenue ⁶	Fitch	Affirm Stable Outlook	BB	BB
underway	General Obligation	Fitch	TBD	AA+	
underway	General Fund Lease Revenue	Fitch	TBD	AA	

⁵ Information Memo, "2012 Action by Fitch Ratings Related to the Norman Y. Mineta San Jose International Airport", July 24, 2012; <https://www.piersystem.com/external/content/document/1914/1503439/1/07-25-12%20Finance.PDF>

⁶ City Manager's Weekly, August 3, 2012 <https://www.piersystem.com/external/content/document/1914/1503439/1/07-25-12%20Finance.PDF>