Tax Supported
New Issue

El Monte Public Financing Authority, California

Ratings

New Issues

Taxable Recovery Zone Economic Development (Lease Revenue) Bonds, Series 2010A	A–
Taxable Build America (Lease Revenue) Bonds, Series 2010B	A–

Rating Outlook

Stable

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New Issue Details

Sale Information: $14,790,000 Taxable Recovery Zone Economic Development (Lease Revenue) Bonds, Series 2010A, and $4,815,000 Taxable Build America (Lease Revenue) Bonds, Series 2010B, to price the week of Dec. 6 via negotiation.
Security: Lease revenue bonds.
Purpose: To finance a maintenance yard facility at a cost of approximately $18 million to be completed July 2011.
Final Maturity: Feb. 1, 2041.

Related Research

For information on Build America Bonds, visit www.fitchratings.com/BABs.

Applicable Criteria
- *Tax-Supported Rating Criteria, Aug. 16, 2010*
- *U.S. Local Government Tax Supported Rating Criteria, Oct. 8, 2010*

Rating Rationale

- The ‘A–’ rating reflects the city of El Monte’s low unreserved general fund balances over the past few fiscal years, moderate taxable assessed valuation (TAV) declines, and low socio-economic indicators, including very high unemployment and low income and wealth levels.
- The rating also reflects the lease structure, in which the city covenants to budget and appropriate the essential nature of the pledged assets (the public works yard and civic center) and other standard bondholder protections.
- Although a general fund lease obligation, the rating incorporates the uncertain nature of the revenues the city intends to use to pay debt service, including tax increment revenues from two El Monte Redevelopment Agency (the agency) project areas and from the city’s water and sewer funds, as well as the general fund’s ability to pay a portion of debt service, if required.
- While the city’s financial reporting has been weak in the past, new management has taken steps to improve both reporting and performance, including cuts to expenditures.

Key Rating Drivers

- Payment of debt service from the tax increment areas and water and sewer funds to limit the impact on the general fund.
- Maintenance of at least adequate general fund balances, with a view to increasing the unreserved portion.

Credit Summary

The ‘A–’ rating for the series 2010 bonds reflects the city’s covenant to budget and appropriate lease rental payments to the El Monte Public Financing Authority for use and occupancy of the city’s civic center and public works yard, with the general fund as the ultimate security, and standard bondholder protections, including a reserve fund and rental

Considerations for Taxable Bond Investors

This sector credit profile is provided as background for investors new to the municipal market.

Local Government Appropriation-Backed Bonds
The unlimited taxing power of most local government general obligation pledges is the broadest security a U.S. local government can provide to the repayment of its long-term borrowing and, therefore, is the best indicator of its overall credit quality. Some debt repayment requires annual legislative appropriation, and this lesser long-term commitment to repayment is reflected in a lower rating than that of the general obligation rating, usually by one to two notches.

The average local government general obligation rating is ‘AA’, with approximately 85% rated at or above ‘AA–’ and 1% rated ‘BBB+’ or below. The relatively high ratings reflect local governments’ inherent strengths: the authority to levy property taxes, nonpayment of which can result in property foreclosures; additional taxing power that can include sales, utility, and income taxes; and essentiality of and lack of competition for services provided by local governments. Those with low investment-grade or below-investment-grade ratings generally have a combination of a limited or highly volatile economic base, high levels of long-term liabilities, including debt and post-employment benefits, and/or unusually limited financial flexibility. For additional information on these ratings, see “U.S. Local Government Tax-Supported Rating Criteria,” dated Oct. 8, 2010, available on Fitch’s Web site at www.fitchratings.com.

Rating History

Rating	Action	Outlook/ Watch	Date
A–	Assigned	Stable	12/1/10

interruption insurance. The city expects that the lease rental payments will be paid from several revenue streams as follows: tax increment revenues from the agency's Northwest and Valley-Durfee project areas; and net revenues from the city's water and sewer funds. The leased assets — the civic center complex and the public works yard — have been appraised at $12.25 million and $8.6 million, respectively.

The city of El Monte is located about 12 miles east of downtown Los Angeles in the San Gabriel Valley. Covering about 10 square miles, it is adjacent to the junction of the San Bernardino Freeway (I-10) and the San Gabriel River Freeway (I-605). It currently has a population of about 125,500 and a mix of residential (54%), commercial (16%), industrial (15%), and retail (7%) development. Top private employers include Wells Fargo Bank (1,800 employees), Vons Grocery Co. (736), and Longo Toyota-Lexus (600). The city has had consistently high unemployment; as of August 2010, the rate was 15.9%, compared with 12.1% for the Los Angeles metropolitan statistical area (MSA). Additionally, the city has relatively low incomes; its median household income was at $42,363 in 2008, or 71%, 69%, and 81% of the Los Angeles MSA, state, and national levels, respectively.

TAV has held up relatively well in the recent downturn, showing a small decline in fiscal 2010 (0.1%) and a larger drop in fiscal 2011 (2.1%). Taxpayer concentration is low, with the top 10 comprising just 6% of TAV. In addition, delinquencies were down to 3.4% in fiscal 2010 from 4.7% in fiscal 2009, although still above a low of 2.2% in fiscal 2004. Fitch data show high rates of nonconventional loans and high foreclosure rates; foreclosures were at 10.6% in second-quarter 2010, similar to the Los Angeles MSA rate of 10.3%.

General Fund Financial Summary

($000, Audited Fiscal Years June 30)

	2006	2007	2008	2009
Total Tax Revenue	36,592	45,443	45,478	40,630
Licenses and Permits	3,012	2,966	3,136	6,853
Fines and Forfeits	742	1,192	1,219	1,514
Charges for Services	1,126	2,477	2,273	2,001
Intergovernmental Revenue	8,935	976	736	729
Other Revenue	3,422	3,602	3,757	3,418
General Fund Revenue	**53,829**	**56,656**	**56,599**	**55,145**
General Government	10,207	12,747	13,774	12,184
Public Safety Expenditures	30,234	34,662	36,629	33,174
Public Works Expenditures	3,563	3,449	3,223	6,104
Culture and Recreation Expenditures	0	4,149	4,410	3,735
Capital Outlay Expenditures	798	2,821	1,724	83
Debt Service Expenditures	860	1,082	952	920
General Fund Expenditures	**45,662**	**58,910**	**60,712**	**56,200**
General Fund Surplus/(Deficit)	**8,167**	**(2,254)**	**(4,113)**	**(1,055)**
Transfers In	446	2,050	2,530	2,121
Other Sources	11	505	0	18
Transfers Out	4,071	0	5,612	802
Other Uses	0	0	0	0
Net Transfers and Other Sources/(Uses)	**(3,614)**	**2,555**	**(3,082)**	**1,337**
Net Surplus/(Deficit)	**4,553**	**301**	**(7,195)**	**282**
Total Fund Balance	63,088	63,311	56,116	57,347
As % of Expenditures, Transfers Out, and Other Uses	126.9	107.5	84.6	100.6
Unreserved Fund Balance	18,399	11,931	5,273	1,100
As % of Expenditures, Transfers Out, and Other Uses	37.0	20.3	8.0	1.9
Unreserved, Undesignated Fund Balance	9,071	735	0	1,100
As % of Expenditures, Transfers Out, and Other Uses	18.2	1.2	—	1.9

Note: Numbers may not add due to rounding.

The city's finances have been poor, with undesignated, unreserved general fund balances of 3% or less of spending for the past three years, including funds designated as working capital, before increasing to 8.9% ($4.3 million) in unaudited fiscal 2010. While overall general fund balances are large, with a five-year average of 108% of expenditures, they are primarily reserved for advances to other funds, which are comprised of loans due from the redevelopment agency not expected to be repaid until the project area bonds are repaid. Furthermore, unless the city is able identify additional sources of revenue, it will be forced to close one of its recently reopened fire stations or face a structural imbalance of about $2.3 million in fiscal years 2013 and 2014. General fund expenditures decreased overall by 7.4% in 2009 and 13.7% in fiscal 2010, including furloughs, a reduction in staff, and a reduction in medical cost contributions. Public safety accounts for about 70% of general fund spending; as the city already cut public safety expenditures by nearly $5 million in fiscal 2010, its ability to control spending growth may be challenged going forward. The city budgeted flat general fund operations for fiscal 2011.

The city intends to make the annual lease payments of approximately $1.9 million prior to the Recovery Zone Economic Development and Build America Bond interest subsidies from available revenues from the water and sewer funds, as well as two redevelopment agency project areas. However, the ability of the water and sewer funds to pay their portion of debt service is unclear. According to the city, the water fund financial statement has contained an error for many years; a $17 million prepaid lease was stated as a liability, without the offsetting asset. Thus, the fund balance should be $6.8 million instead of negative $11 million. With the restatement, debt service coverage is at least 1.26x, including the rate stabilization fund (balance of $400,000) but providing for no revenue growth. This coverage falls to less than 1.0x starting in fiscal 2027 without the stabilization fund. The sewer fund has never appeared in the city's financial statements as a separate enterprise but has been accounted for in the general fund. In July 2008, the City Council adopted an ordinance that allows the city to assess a sewer charge, collected on the property tax bill, which may be increased at a rate of the lesser of 4% or the percentage change in the Los Angeles MSA consumer price index. According to projections provided by the city, debt service coverage on the sewer portion of debt service by this new assessment is at least 1.5x. The redevelopment project areas show adequate debt service coverage (2.0x and 1.7x for fiscal 2012) for their portions of the 2010 payments.

Debt and Other Long-Term Liabilities

El Monte's direct debt burden is low with just one general fund obligation outstanding, resulting in net direct debt at $216 per capita, or just 0.5% of TAV, including the series 2010 issuances. Total direct and overlapping debt rises to a still moderate $1,770 per capita, or 3.7% of TAV. The general fund debt service obligation is currently very low and, in the worst case scenario, in which the general fund is called upon to repay the entire series 2010 bonds and no general fund revenue growth occurs, aggregate debt service would represent a moderate 5.8% of total general fund revenues. The city does not have any plans for additional debt.

Debt Statistics

($000)

This Issue – Net of Refunding	19,666
Outstanding Debt	6,625
Net Direct Debt	**26,291**
Overlapping Debt	188,622
Total Overall Debt	**214,913**
Debt Ratios	
Direct Debt per Capita ($)[a]	216
As % of TAV[b]	0.5
Overall Debt per Capita ($)[a]	1,770
As % of TAV[b]	3.7

[a]Population: 121,446 (2009 estimate).
[b]Taxable assessed valuation (TAV): $5,812,236,000 (2011). Note: Numbers may not add due to rounding.