

RatingsDirect®

Summary:

**Burlingame Financing Authority,
California
Burlingame; Appropriations; General
Obligation**

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Credit Profile

US\$35.0 mil lse rev bnds (Burlingame) ser 2019 dtd 11/27/2019 due 07/01/2049

Long Term Rating

AA+/Stable

New

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to the Burlingame Financing Authority, Calif.'s series 2019 lease revenue bonds issued on behalf of Burlingame. At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on Burlingame's lease revenue bonds outstanding, its 'AAA' long-term rating on the city's pension obligation bonds (POBs) outstanding, and its 'AAA' issuer credit rating (ICR) on the city. The outlook is stable.

Security and use of proceeds

The lease revenue bonds represent an interest in lease payments by the city, as lessee, to the Burlingame Financing Authority, as lessor, for the use and possession of the leased assets. The city has pledged its best efforts to seek appropriations annually out of its operating budget, and has considered the affordability of the lease payments in its long-term plans. In our view, the lease features and terms are standard without any unusual risks regarding timely payment of debt. We rate these obligations one notch lower than the city's general creditworthiness to account for the appropriation risk associated with the lease payments. The estimated \$37.5 million of bond proceeds will be used to partly finance the construction of a community center.

The POBs are obligations of the city and are payable from any legally available funds of the city. We rate the city's POBs on par with its general creditworthiness given our view that the city's ability to pay the obligation is closely tied to its operations and the revenue used to secure the city's POBs is not limited in scope and not distinct and separate from its general fund.

The city's POBs and the city are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013 on RatingsDirect, U.S. local governments are considered moderately sensitive to country risk. City-derived revenue and state grants are the primary revenue sources for the county, and the institutional framework in the U.S. is predictable, with significant local government autonomy and flexibility, as demonstrated by independent treasury management.

Credit overview

- Very strong economy, with access to a broad and diverse metropolitan statistical area;
- Very strong management, with strong financial policies and practices under our financial management assessment methodology;

- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 54% of operating expenditures;
- Very strong liquidity, with total government available cash at 2.4x total governmental fund expenditures and 23.1x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 10.6% of expenditures and net direct debt that is 82.2% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) obligation, but low overall net debt at less than 3.0% of market value; and
- Adequate institutional framework score.

Very strong economy

We consider Burlingame's economy very strong. The city, with an estimated population of 30,317, is located in San Mateo County in the San Francisco-Oakland-Hayward metropolitan statistical area, which we consider broad and diverse. The city has a projected per capita effective buying income of 236% of the national level, which we view as extremely high and a positive credit factor, and per capita market value of \$388,767. Overall, the city's market value grew by 7.4% over the past year to \$11.8 billion in 2020. The county unemployment rate was 2.2% in 2018.

Burlingame is located on the San Francisco Peninsula about 10 miles south of San Francisco and serves as a bedroom community for the greater San Francisco metropolitan region. The city's tax base has grown to extremely strong levels, rising by 6.7% in fiscal 2018 and by 5.9% in fiscal 2019, to \$11 billion. Given the rising home prices in the city, the strong demand for residential properties, and the city's very strong per capita effective buying income levels, we do not expect the city's economy score to worsen during the next two years.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our financial management assessment methodology, indicating our view that financial practices are strong, well embedded, and likely sustainable.

The city has adopted and formalized several policies and practices during the past several years. Among these policies are a practice of maintaining a formal five-year financial forecast that is updated at least once a year, and a formal debt management policy that provides guidelines on the types of debt the city can issue and for which specific purposes with several quantitative limitations that include a limit on debt service as a percentage of the general fund budget. The city has also adopted a formal reserve policy that requires the city to keep at least 24% of reserves within an economic stability reserve fund, creation of a \$2 million catastrophic reserve, and a \$500,000 contingency reserve. The city also maintains other practices, such as semiannual presentations of its budget-to-actual results to the city council at a minimum, a formal five-year capital improvement plan that is updated annually, and a formal investment policy with quarterly reporting of investment results to the city council.

Strong budgetary performance

Burlingame's budgetary performance is strong, in our opinion. The city had a net operating surplus of 5.2% of expenditures in the general fund and of 14.1% across all governmental funds in audited fiscal 2018. Fiscal 2019 unaudited actual results show a net operating surplus of 23% of expenditures in the general fund mainly from sales tax

Measure I, revenue from which became available in April 2018.

The city's budgetary performance has remained strong with net operating surpluses reported in the past five fiscal years. The city receives most of its revenue in the form of transient occupancy taxes (38%), followed by property taxes (29%), and sales taxes (23%). With the city's close proximity to the San Francisco International Airport, hotel taxes (also known as transient occupancy taxes) continue to represent a large portion of the city's revenue and have also been growing consistently during the past several years. Property tax revenue has also demonstrated very strong growth, in line with the growth in the city's tax base during the past few years. For fiscal 2020, the city budgets for another net operating surplus, of approximately 1%. We do not expect the city's budgetary performance to worsen during the next two years.

Very strong budgetary flexibility

Burlingame's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 54% of operating expenditures, or \$32 million. Fiscal 2019 unaudited actual results show an available fund balance of approximately 75% of operating expenditures, and the city plans to transfer about \$9.9 million to its pension trust fund. For fiscal 2020, the city's budget shows an available fund balance of approximately 51% of operating expenditures. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

The city maintains very strong reserves within its general fund. Included in the reserve calculation percentage are a contingency reserve, a catastrophic reserve, and an economic stability reserve. Given the strong performance in the city's general fund for the past several years and management's lack of plans to spend down reserves, we expect the city's budgetary flexibility to remain very strong for the next two years.

In addition, the city maintains a capital investment reserve outside of the general fund with a balance of \$28.8 million. Management budgeted to transfer out \$6.5 million from the general fund to the capital investment reserve for a total of \$35.3 million, and will use approximately \$15 million to partly fund the new community center, along with the bond proceeds.

Very strong liquidity

In our opinion, Burlingame's liquidity is very strong, with total government available cash at 2.4x total governmental fund expenditures and 23.1x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary.

The city's liquidity remained very strong in fiscal 2018. The city maintains a formal investment policy and invests primarily in the local agency investment fund and other federal securities, which we believe are very conservative. We do not expect the city's liquidity to weaken during the next two years.

Weak debt and contingent liability profile

In our view, Burlingame's debt and contingent liability profile is weak.

Debt

Total governmental fund debt service was 10.6% of total governmental fund expenditures, and net direct debt was 82.2% of total governmental fund revenue in fiscal 2018. Overall net debt is low at 2.7% of market value, which is, in

our view, a positive credit factor. The city has maintained an adequate debt profile during the past several years, primarily issuing POBs and lease revenue bonds, but its amortization rate has decreased to 54% from 65% of total direct debt that is expected to be retired in the next 10 years. According to management, the city has no medium-term debt plans and no alternative financed debt.

Pension and OPEB highlights:

- In our opinion, a credit weakness is Burlingame's large pension and OPEB obligation.
- While the city's pension contributions for are set to increase for the next few years, the city established an irrevocable trust to prefund its pension liabilities.
- The city makes its full actuarially determined contributions toward its OPEB liability, the city also established an OPEB trust to prefund its liability, and this, combined with the city's legal flexibility to alter OPEB benefits, limits adverse credit impacts from its OPEB liability.

The city participates in the following plans funded as of June 30, 2017:

- California Public Employees' Retirement System (CalPERS) multiple-employer plans for miscellaneous employees: \$38.9 million in net liability, and 73% funded;
- CalPERS multiple-employer plans for safety employees: \$27 million in net liability, and 29% funded; and
- Multiple-employer OPEB plan: \$38.9 million in net liability, and 26.7% funded.

Burlingame's required pension and actual OPEB contributions totaled 14.9% of total governmental fund expenditures in 2018 with 7.9% representing required contributions to pension obligations and 6.9% representing OPEB payments. These ratios are higher than those of most state peers because of pension costs under CalPERS continue to rise year after year, but the city has been able to budget for those increases and plans to continue to do so for the next two years. Addressing its pension liabilities, the city created an irrevocable trust (115 Trust Fund) to prefund its pension liabilities. As of June 30, 2019, the balance in pension trust fund was over \$8.7 million. The city also created an OPEB trust fund in fiscal 2014 to prefund some of its OPEB costs. The balance in this trust fund was nearly \$20.3 million as of June 30, 2019. Management also reports that it has significantly reduced retiree health benefits for newer employees that were hired after 2010 and 2012 (depending on the bargaining unit), limiting the increases in OPEB liabilities.

Adequate institutional framework

The institutional framework score for California municipalities not required to submit a federal single audit is adequate.

Outlook

The stable outlook reflects our view of the city's very strong local economy, very strong management that reflects the city's policies and practices that are strong, well embedded, and likely sustainable, and the city's maintenance of very strong reserves in recent years. The outlook reflects our expectation that the city will maintain very strong reserves in compliance with its reserve policy and that it will maintain strong budgetary performance with balanced operations despite growing pressure from pension and OPEB costs. We do not expect to change the rating during the next two

years.

Downside scenario

We could lower the rating if the city's pension and OPEB costs rise to unsustainable levels and its transient occupancy tax revenue (its largest revenue stream) experiences significant volatility that results in continual operating deficits and substantial drawdowns of the city's general fund reserves, substantially weakening budgetary performance and flexibility.

Related Research

- U.S. State And Local Government Credit Conditions Forecast, Oct. 29, 2019
- SeismiCat Earthquake Model, May 4, 2018
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2019 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of November 18, 2019)

| | | |
|--|------------------|----------|
| Burlingame ICR | | |
| <i>Long Term Rating</i> | AAA/Stable | Affirmed |
| Burlingame APPROP | | |
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |
| Burlingame GO | | |
| <i>Unenhanced Rating</i> | AAA(SPUR)/Stable | Affirmed |
| Burlingame Fincg Auth, California | | |
| Burlingame, California | | |
| Burlingame APPROP | | |
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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