

MOODY'S

INVESTORS SERVICE

Announcement: MOODY'S AFFIRMS THE Aa2 RATING ON THE CITY OF RIVERSIDE (CA) SEWER ENTERPRISE REVENUE BONDS: NEGATIVE OUTLOOK ASSIGNED

Global Credit Research - 23 Nov 2011

\$241 MILLION OF RATED DEBT AFFECTED

New York, November 23, 2011 -- Moody's Investors Service has affirmed the Aa2 rating on the City of Riverside (CA) Sewer Enterprise's revenue bonds and has assigned a negative outlook. The bonds are secured by a senior pledge of the net revenues of the sewer enterprise system, affecting \$241M in outstanding Moody's rated debt.

SUMMARY RATINGS RATIONALE

The affirmation reflects a strong cash position and a service area which is consistent with the average for the rating. The negative outlook considers the current and projected debt service coverage levels that are lower than initially anticipated and a service area that is still facing significant economic pressure.

STRENGTHS

- 5 year rate increase implemented in fiscal 2009 which bolsters coverage
- Strong unrestricted reserve position

CHALLENGES

- Revenues which have not increased as anticipated despite rate increases
- Economically pressured service area

What could make the rating move - UP:

Significant increases in debt service coverage achieved and maintained over the long term

Sustained implementation of regular rate increases which would bolster unrestricted cash reserves

What could make the rating move - DOWN:

Decreased debt service coverage despite actions taken to bolster reserves

Material reduction in unrestricted reserves

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Analytical Framework For Water And Sewer System Ratings published in August 1999. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

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