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[S&P: A Year After the Local Government GO Criteria Update, California City Ratings Remain Strong.]

Two years ago, Standard & Poor's Ratings Services took stock of California city governments in the wake of the Great Recession and found that the significant economic and budgetary pressure did not ultimately alter their overall credit quality. (See "Diving Under The Surface Of California City Credit Quality Reveals A Diverse Picture," published Dec. 19, 2012, on RatingsDirect.) The application of our revised local government general obligation (GO) criteria during the past year provided an opportunity to take another look at how our ratings on California cities have fared as the state and its local economies continue to recover. The increased transparency and comparability of ratings under the revised criteria (see "U.S. Local Governments General Obligation Ratings: Methodology And Assumptions," published Sept. 12, 2013) also allow us to better compare cities with their peers both within and outside the state, as well as highlight patterns and trends that distinguish California credits from those in the rest of the country.

On the whole, we find that California's cities are recovering well, with a few exceptions. However, the economy has not recovered with the same vigor across the state's diverse regions: As in previous recoveries, the urban coastal regions have regained jobs and economic activity more swiftly than their inland and rural counterparts have. The lack of a uniform economic recovery makes generalizing about credit trends difficult even at the state level. As we discuss in detail below, cities in the Central Valley, the far north, and the Inland Empire may continue to face challenges as they seek to balance spending pressure with slower revenue growth.

Overview

- California cities as a whole are recovering well, with regional differences.
- Their rating distribution remains bifurcated, with relatively more highly rated issuers than other states and also more distressed credits than other states.
- Management remains a key determinant of credit performance, particularly in light of the uneven economic recovery.
- Climbing pension and other postemployment benefit burdens haven't had a broad impact on cities' credit quality but in some cases pose a long-term challenge for budgets and balance sheets.
- We anticipate that the rating distribution of California cities will remain stable as a result of a strong state economy overall.

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