

**STANDARD
& POOR'S**

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August 12, 2005

City of Ridgecrest
100 West California Avenue
Ridgecrest, CA 93555
Attention: Mr. James Winegardner, Deputy City Manager

Re: *City of Ridgecrest, California, Certificates of Participation*

Dear Mr. Winegardner:

Standard & Poor's has reviewed the rating on the above-referenced obligations. After such review, we have affirmed the "A-" rating and stable outlook. A copy of the rationale supporting the rating and outlook is enclosed.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer/obligor and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information if necessary to maintain the rating.

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Please send all information to:

Standard & Poor's Ratings Services
Public Finance Department
55 Water Street
New York, NY 10041-0003

If you have any questions, or if we can be of help in any other way, please feel free to call or contact us at nypublicfinance@standardandpoors.com. For more information on Standard & Poor's, please visit our website at www.standardandpoors.com. We appreciate the opportunity to work with you and we look forward to working with you again.

Sincerely yours,

Standard & Poor's Ratings Services
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By: Steven J. Murphy
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enclosure

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Summary: Ridgecrest, CA

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Credit Profile

AFFIRMED
Outstanding certs of part
A-

OUTLOOK: STABLE

Rationale

Standard & Poor's Ratings Services affirmed its 'A-' rating on Ridgecrest, Calif.'s certificates of participation (COPs), reflecting the city's:

- General creditworthiness;
- Covenant to budget and appropriate lease payments; and
- Strong essentiality of leased assets: the city hall and multipurpose facility.

Proceeds were used to refund the city's 1988 COPs, which were originally issued to finance the construction of a city hall and multipurpose facility under an installment-purchase lease structure. To mitigate the risk of abatement for nonuse, the city will maintain rental-interruption insurance for 24 months, which is sufficient time to rebuild the leased facilities. The structure also includes a fully funded debt-service reserve fund.

The city's general creditworthiness reflects:

- An isolated local economy that is directly tied to China Lake Naval Air Weapons Station;
- A history of declining assessed value (AV) that is slowly recovering; and
- Solid reserves, despite recent declines in general fund balance.

Ridgecrest occupies a total of 16,750 acres in the Mojave Desert (Kern County), 114 miles northeast of Bakersfield, Calif. (estimated population: 30,000). Despite growth in the tourism, trade, technology and media sectors, the local economy continues to be anchored by activity in defense and aerospace. China Lake Naval Air Weapons Station, the largest nonnuclear military research and testing center in the United States, is located in Ridgecrest. An estimated 60%-85% of local jobs are tied to the naval base, including nonmilitary consultants and contractors, making the base the principal source of employment for city residents. As part of the Department of Defense's program to realign domestic military facilities, China Lake Naval Air Weapons Station will gain an estimated 2,500 positions. City officials expect population growth and economic development to accompany the base expansion, and are spending a portion of general fund reserves on infrastructure and personnel acquisitions in preparation.

Reversing a six-year negative trend in assessed value (AV) that was due to general recessionary pressures and defense industry consolidations, fiscal 2003 AV increased by 0.9%, reaching \$788.7 million. Housing turnover and development spurred additional growth in fiscal 2004: AV increased by 6%, to \$838.5 million. Despite healthy growth in the property tax base, market value per capita is a low \$31,055. Income levels are slightly below average, with per capita effective buying income levels at 98% of national averages. City unemployment averaged 6.45% in 2004, higher than state and national averages.

Despite budgetary challenges related to the state budget crisis, the Ridgecrest unreserved fund balance has consistently exceeded 22% of operating expenditures since fiscal 2002. The city has an unwritten policy of maintaining a 20%-25% general fund balance. In fiscals 2002 and 2003, the city hired

several public safety employees, the cost of which was financed through general fund reserves. The city closed fiscal 2004 with a \$155,000 deficit, due to a decline in vehicle license-fee revenues and increased staffing costs, which decreased the unreserved general fund balance to \$1.8 million, or a strong 22.6% of expenditures. City officials expect to end fiscal 2005 with a \$170,000 operating surplus, bringing the total fund balance to an estimated \$2.5 million, or 31% of expenditures. The city expects an operating surplus in fiscal 2006.

Overall net debt at \$1,268 per capita is average for a city this size, while debt at 4.1% of property values is above average. The city does not plan to issue additional debt in the near term.

Outlook

The stable outlook reflects Ridgecrest's sound financial position and recent tax base growth.

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