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**Summary:**

**Riverside County, California  
Riverside County Infrastructure  
Financing Authority; Appropriations;  
General Obligation; Joint Criteria**

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## Summary:

# Riverside County, California Riverside County Infrastructure Financing Authority; Appropriations; General Obligation; Joint Criteria

### Credit Profile

US\$452.68 mil lse rev rfdg bnds (federally taxable) (Riverside Cnty) ser 2021B due 11/01/2045		
<i>Long Term Rating</i>	AA-/Stable	New
US\$56.655 mil lse rev rfdg bnds (Riverside Cnty) ser 2021A due 11/01/2032		
<i>Long Term Rating</i>	AA-/Stable	New

## Rating Action

S&P Global Ratings assigned its 'AA-' long-term rating to Riverside County Infrastructure Financing Authority, Calif.'s anticipated \$56.655 million series 2021A lease revenue refunding bonds and anticipated \$452.68 million series 2021B lease revenue refunding bonds (federally taxable), issued on behalf of Riverside County.

At the same time, S&P Global Ratings affirmed its:

- 'AA' issuer credit rating (ICR) on the county and its 'AA' long-term rating and underlying rating (SPUR) on the county's existing pension obligation bonds (POBs);
- 'AA-' long-term rating and SPUR on the county's existing lease revenue bonds and certificates of participation (COPs);
- 'A+' rating on the California Enterprise Development Authority's series 2019 lease revenue bonds, issued for the county; and
- The 'AA+' long-term component of the 'AA+/A-1' dual rating on Riverside County Asset Leasing Corp.'s variable rate demand leasehold revenue refunding bonds, series 2008A (Southwest Justice Center refunding), issued for the county. The rating reflects the application of our joint support criteria and the medium correlation between the county and the letter of credit provider, Wells Fargo Bank N.A. (A+/A-1). We note that the current letter of credit agreement with Wells Fargo expires on Jan. 17, 2025. Additionally, we note that these bonds are expected to be refunded with the series 2021 bonds.

The outlook, where applicable, is stable.

The county's lease revenue bonds and COPs are secured by or represent an interest in lease payments and base rental payments respectively to be made by the county for the use and occupancy of certain leased premises. The county has covenanted to budget and appropriate lease payments to meet its obligations under the lease agreements, supporting the appropriation debt. We have reviewed the lease features and terms in accordance with our criteria and consider

them to be standard with no unusual risks regarding timely payment of debt. We rate these obligations one notch lower than the county's general creditworthiness to account for the appropriation risk associated with the base rental payments. The series 2021A and series 2021B lease revenue bonds lack a debt service reserve fund, but we believe that a lease payment schedule that provides for semiannual payments due more than three months after the beginning of the fiscal year provides adequate time for the county to correct a lack of appropriation. The leased assets meet our criteria for seismic risk during the life of the series 2021 obligations, and the county has covenanted to maintain 24 months' rental interruption insurance to partly mitigate abatement risk. Proceeds from the series 2021 bonds will be used to refund seven outstanding series of lease revenue bonds. The bonds to be refunded include the Riverside County Asset Leasing Corporation's series 2008A variable rate bonds, series 2012, series 2012A, series 2013A, series 2014A and the Riverside County Public Financing Authority's series 2012 and series 2015 bonds.

The outstanding POBs are obligations of Riverside County and are payable from any legally available funds. We rate the county's POBs on par with its general creditworthiness, reflecting our view that its ability to pay the obligation is closely tied to its operations, and that the revenue used to secure the county's POBs is not limited in scope, nor is it distinct and separate from its general fund.

The county's series 2019 lease revenue bonds outstanding, issued by the California Enterprise Development Authority on behalf of the county, are secured by base rental payments made by the county, as lessee, to CFP Riverside LLC, as lessor. We consider the lease structure as nonstandard, which allows for certain administrative risks to future lease payments. As a result, we rate this obligation two notches below the county's general creditworthiness. Please see the article published July 25, 2019, for more information.

### **Credit overview**

The county has maintained an overall strong financial position with general fund reserves remaining at good levels during the past several years. Despite a modest drawdown of general fund reserves in fiscal 2020 that resulted from a decline in sales tax revenues in that year, the county's reserves remained at good levels in part due to the county's efforts at cutting costs that include implementing a hiring freeze, department wide budget cuts and absorption of increases for salaries and benefits. Property tax revenues comprise the largest discretionary revenue stream for the county, and its tax base continues to see growth in assessed value (AV). The county believes this growth will likely continue for the next several years and will help the county maintain balanced operations without a need to substantially reduce its general fund reserves. Overall, we expect the county's financial position to remain stable during the next two years, in line with its stable outlook.

The ratings further reflect our view of the following credit factors:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating deficit in the general fund but an operating surplus at the total governmental fund level in fiscal 2020;
- Strong budgetary flexibility, with an available fund balance in fiscal 2020 of 8.3% of operating expenditures;

- Very strong liquidity, with total government available cash at 42.3% of total governmental fund expenditures and 12.9x governmental debt service, and access to external liquidity we consider exceptional;
- Strong debt and contingent liability profile, with debt service carrying charges at 3.3% of expenditures and net direct debt that is 53.2% of total governmental fund revenue; and
- Strong institutional framework score.

### **Environmental, social, and governance factors**

We analyzed the county's environmental, social, and governance (ESG) risks relative to its economy, management, financial measures, and its debt and liability profile. In addition, we believe the county's tax base is somewhat exposed to environmental risks posed by the threat of wildfires and seismic activity. We consider the county's governance risks in line with our view of the sector standard.

## **Stable Outlook**

### **Upside scenario**

The rating could be raised if the county reports stronger economic metrics that include stronger wealth and income levels and if the county brings reserves up to very strong levels with a projection to sustain them at such levels.

### **Downside scenario**

The rating could be lowered if the county's reserves fall below strong levels with reserves projected to further decline due to an unmitigated structural imbalance in county operations. Additionally, the rating could also be lowered if the county's budgetary performance weakens with evidence of a structural imbalance due to an unforeseen downturn in the local economy that results in declines in the county's major revenue streams.

## **Credit Opinion**

### **Strong economy**

We consider the county's economy strong. Riverside County, with an estimated population of 2.5 million, is in the Riverside-San Bernardino-Ontario, CA MSA, which we consider broad and diverse. The county has a projected per capita effective buying income of 81.0% of the national level and per capita assessed value of \$136,567. Overall, the county's assessed value grew by 5.6% during the past year to \$338.3 billion in 2022. The county's unemployment rate was 9.9% in 2020.

The county, located in Southern California, is the state's fourth largest by area, stretching 185 miles from the Arizona border to within 20 miles of the Pacific Ocean. There are 28 incorporated cities in the county, with the city of Riverside serving as the county seat. Major employment industries within the county include jobs in education and health services, transportation, construction, leisure, and hospitality. The county is a center for transportation and warehousing due to the access to several freeways and proximity to the Los Angeles port. The county experienced eight consecutive years of AV growth, with AV increasing by 5.8% to \$320.4 billion in fiscal 2021. The recent AV resilience is partly due to vitality within the county's economy, which includes relatively strong single-family residential AV growth. The housing market remains very strong and is likely to carry over into fiscal 2022 with further

growth expected going forward.

### **Very strong management**

We view the county's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable. In our opinion, management's proactive financial management practices--for example, taking mid-year action to mitigate a decline in revenue--have helped the county's financial performance in recent years.

Key policies and practices include the following:

- The county's revenue and expenditure assumptions are well grounded and include the use of internal and external inputs and data. This also includes close consideration of state legislative decisions and budget revisions.
- The county looks at its budget throughout the year, including quarterly budget-to-actual analysis. In addition, the county does long-term forecasting with annual revisions.
- The county examines its capital improvement plan, which goes out five years, as least annually and identifies sources of funding for at least the current and subsequent year.
- The county has a formal investment policy with a quarterly oversight committee and an annual investment audit.
- The county has a formal debt policy that addresses the use of variable-rate debt, swaps and derivatives, and criteria for debt issuance.
- The county has a policy of maintaining economic uncertainty funds at no less than 25% of ongoing discretionary revenue, with additional contingency funds of \$20 million (approximately 3.5% of discretionary revenue). Economic uncertainty funds are used only for emergencies (and are thus rarely used); however, contingency reserve balances are often used but are subsequently restored.

### **Strong budgetary performance**

Riverside County's budgetary performance is strong in our opinion. The county had slight deficit operating results in the general fund of 1.0% of expenditures, but a surplus result across all governmental funds of 2.3% in fiscal 2020.

We have adjusted the county's revenue and expenditures upward to reflect recurring transfers out of the general fund that we believe function like ongoing activity. We believe the county's current budgetary performance remains strong with surpluses reported in both fiscals 2018 and 2019. Property taxes comprise the county's largest revenue stream, representing approximately 38% of total general revenues in fiscal 2020. Sales tax revenues make up a much smaller percentage at only 3% of total general revenue. While the county reported a modest general fund deficit in fiscal 2020, primarily due to sales tax revenue declines stemming from recessionary pressures from the ongoing pandemic, the decline was small in our view and is not expected to have a substantial effect on the county's overall fiscal strength. In response to the decline in revenues, the county implemented several cost cutting measures that included implementing a hiring freeze, mandating department-wide budget cuts and limiting any increases for salary and benefits.

For fiscal 2021, management indicates that revenues, including both property taxes and sales taxes, have come in higher than previously budgeted. The previous fiscal 2021 budget reflected a use of reserves, although management projects ending fiscal 2021 with an operating surplus and will grow reserves to stronger levels. The fiscal 2022 budget

was also recently adopted by the county and includes conservative assumptions such as a modest increase in property tax revenues. Given the current positive trend in the county's major revenue streams, the county expects to end fiscal 2022 with balanced operations at a minimum. We note that the county has received approximately \$240 million in May 2021 under the American Rescue Plan Act and expects to receive another \$240 million by May 2022. These funds are kept separate from the general fund and have not been included in the budget for fiscal 2022.

### **Strong budgetary flexibility**

Riverside County's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2020 of 8.3% of operating expenditures, or \$286.5 million.

The county has maintained its reserves at strong levels, despite a modest drawdown that occurred in fiscal 2020. Going forward, the county expects to end fiscal 2021 with an operating surplus with reserves growing to stronger levels. While we do not expect reserves to grow substantially to very strong levels during the next few years, we do not expect reserves to weaken below current levels during the next year.

### **Very strong liquidity**

In our opinion, Riverside County's liquidity is very strong, with total government available cash at 42.3% of total governmental fund expenditures and 12.9x governmental debt service in 2020. In our view, the county has exceptional access to external liquidity if necessary.

The county is a frequent issuer of both short-term debt (teeter notes and tax and revenue anticipation notes, or TRANs) and long-term debt (appropriation bonds, POBs, and special assessment bonds), and as a result, we consider its access to external liquidity to be exceptional. Most of the county's cash is invested with the county treasurer's pooled investment fund, which we do not consider aggressive.

### **Strong debt and contingent liability profile**

In our view, Riverside County's debt and contingent liability profile is strong. Total governmental fund debt service is 3.3% of total governmental fund expenditures, and net direct debt is 53.2% of total governmental fund revenue.

The county's strong debt profile appears likely to persist for the foreseeable future, as the county indicates it has no immediate debt plans.

Riverside County's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 5.6% of total governmental fund expenditures in 2020. The county made 100% of its required pension contribution in 2020. We do not view pension or OPEB contributions as a significant financial stress for Riverside County. Given the actuarial basis for annual pension contributions and the county's strong funding discipline, we do not expect a significant near-term increase in pension costs that could weaken the county's budgetary performance.

The county participates in the following plans. The following data points reflect a measurement date of June 30, 2019:

- CalPERS safety plan: \$1.064 billion in net liability, or 72% funded;
- CalPERS miscellaneous plan: \$2.4 billion, or 71% funded; and
- The county's single-employer OPEB plan: \$58.2 million in net liability or 43.6% funded.

We note that the county issued pension obligation bonds in fiscal 2020, which we expect will result in higher funded ratios for both CalPERS safety and miscellaneous plans at 79% and 75% respectively. CalPERS lowered the discount rate to 6.8% from 7.0% starting in fiscal 2022, with the idea of reducing market risk. We note the new discount rate is still above our pension guideline of 6% and could lead to contribution volatility. For more information on our view of California pensions, see our report "Pension Spotlight: California", published July 13, 2021, on RatingsDirect.

### Strong institutional framework

The institutional framework score for California counties required to submit a federal single audit is strong.

## Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2020 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of September 16, 2021)		
Riverside Cnty GO ICR		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Riverside Cnty APPROP		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Riverside Cnty APPROP		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Riverside Cnty APPROP		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Riverside Cnty APPROP		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Riverside Cnty GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Riverside Cnty GO (BAM)		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Riverside Cnty GO (BAM)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Riverside Cnty GO (BAM)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Riverside Cnty GO (MBIA) (MBIA of Illinois)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>California Enterprise Dev Auth, California</b>		
Riverside Cnty, California		
California Enterprise Dev Auth (Riverside Cnty) lse rev bnds (Riverside Cnty) (Reiverside County Library Facs Proj) ser 2019 due 02/01/2051		
<i>Long Term Rating</i>	A+/Stable	Affirmed
<b>Riverside Cnty Asset Lsg Corp, California</b>		
Riverside Cnty, California		

**Ratings Detail (As Of September 16, 2021) (cont.)**

Riverside Cnty Asset Lsg Corp Taxable Lse Rev Rfdg Bnds (Riverside Cnty Technol Rfdg Proj)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Riverside Cnty Asset Lsg Corp (Riverside Cnty)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Riverside Cnty Asset Lsg Corp (Riverside Cnty) lse rev bnds (pub defender and info technol bldg projs)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Riverside Cnty Asset Lsg Corp (Riverside Cnty) lse rev bnds (County Of Riverside Cap Proj)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Riverside Cnty Asset Lsg Corp (Riverside Cnty) APPROP		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Riverside Cnty Asset Lsg Corp (Riverside Cnty) JOINTCRIT (ASSURED GTY)		
<i>Long Term Rating</i>	AA+/A-1	Affirmed
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
<b>Riverside Cnty Infrastructure Fing Auth, California</b>		
Riverside Cnty, California		
Riverside Cnty Infrastructure Fing Auth lse rev rfdg bnds (Riverside Cnty)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Riverside Cnty Infrastructure Fing Auth lse rev rfdg bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Riverside Cnty Infrastructure Fing Auth (Riverside Cnty) lse rev bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Riverside Cnty Infrastructure Fing Auth (Riverside Cnty) lse rev rfdg bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Riverside County Infrastructure Financing Authority (Riverside Cnty) lse rev rfdg bnds (Riverside Cnty) (Cap Imp Proj Rfdg) ser 2015A due 11/01/2037		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<b>Riverside Cnty Palm Desert Fincg Auth, California</b>		
Riverside Cnty, California		
Riverside Cnty Palm Desert Fincg Auth (Riverside Cnty) APPROP		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<b>Riverside Comnty Properties Dev, Inc., California</b>		
Riverside Cnty, California		
Riverside Comnty Properties Dev, Inc. (Riverside Cnty) 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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.



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