

## RATING ACTION COMMENTARY

# Fitch Rates \$425MM Riverside Cnty, CA TRANS 'F1+'; Upgrades POBS on Criteria Change; Upgrades IDR

Wed 29 May, 2024 - 4:21 PM ET

Fitch Ratings - San Francisco - 29 May 2024: Fitch Ratings has assigned an 'F1+' rating to the following Riverside County, CA note:

--\$425,000,000 County of Riverside 2024 Tax and Revenue Anticipation note (TRANS).

Fitch has also upgraded the following Riverside County ratings:

--Issuer Default Rating (IDR) to 'AA' from 'AA-';

--Riverside County pension obligation bonds (POBs) series 2005A to 'AA' from 'A+';

--Riverside County Asset Leasing Corporation (CORAL) lease revenue bonds (LRBs) series 1997A to 'AA' from 'A+'.

The Rating Outlook is Stable. The POBs are removed from Under Criteria Observation.

Fitch has additionally affirmed the following ratings:

--Riverside County 2023 TRANS at 'F1+';

--Teeter obligation notes series 2023A at 'F1+'.

The TRANS are expected to be priced June 6 via negotiation. TRANS proceeds will be used to provide moneys to meet the county fiscal 2024 general fund expenditures, including current expenses, and the discharge of other obligations or indebtedness of the county.

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Riverside County (CA) [General Government]	LT IDR	AA Rating Outlook Stable		AA- Rating Outlook Positive
	Upgrade			
Riverside County (CA) /General Fund Contractual Obligations - Pension/1 LT	LT	AA Rating Outlook Stable	Upgrade	A+ Rating Outlook Positive
Riverside County (CA) /Issuer Default Rating - General Government/1 LT	LT	AA Rating Outlook Stable	Upgrade	AA- Rating Outlook Positive
Riverside County (CA) /Lease Obligations - Standard/1 LT	LT	AA- Rating Outlook Stable	Upgrade	A+ Rating Outlook Positive
Riverside County (CA) /Operating Cashflow/1 ST	ST	F1+	Affirmed	F1+

### VIEW ADDITIONAL RATING DETAILS

The 'F1+' Short-Term rating on the 2024 TRANS corresponds to the county's 'AA' IDR. The combination of the pledged fiscal 2024 cash receipts and borrowable resources provides very strong coverage of debt service (borrowables projected at over \$2.2 billion, estimated to cover note principal and interest 6.6x). Full note principal and interest set-asides occurs one month in advance of the TRANS' maturity on June 30, 2025.

The upgrade of the IDR to 'AA' from 'AA-' primarily reflects the continued strong financial operations resulting in significantly improved reserves since 2020. The 'AA' rating further

reflects the county's strong population growth and weak demographic strength including somewhat elevated unemployment relative to the national rate. Long-term liability metrics are midrange and capital needs are not expected to materially change its liability profile. The rating also incorporates a positive additional analytical factor notch recognizing the county's size, strength and stability and the importance of its large economy.

The upgrade of the POBs to 'AA' reflects implementation of Fitch's new "U.S. Public Finance Local Government Rating Criteria". The criteria provide for debt backed by an absolute and non-cancellable covenant to appropriate debt service payments to be rated on par with the IDR if the revenues available to make such payments are sufficiently broad and controllable. The county's covenant to appropriate debt service combined with the broad pool of revenues available for appropriation by the county support rating the POBs on par with the IDR.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

--Budgetary imbalances due to an inability to adequately adjust spending to match revenues, leading to a decline in unrestricted general fund balances sustained below 10% of spending, leading to a lower assessment of financial resilience;

--A sustained approximate 20% increase in long-term liabilities, absent a commensurate increase in personal income and/or governmental resources, respectively.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

--Sustained maintenance of unrestricted general fund balances over 17.5%, leading to a higher financial resilience assessment;

--An approximate decrease in long-term liabilities by approximately one-third, absent a commensurate decrease in personal income and/or governmental resources.

## **SECURITY**

The 2024 TRANS are general obligations of the county payable from unrestricted revenues consisting of taxes, income, revenue (including but not limited to revenue from state and federal governments), cash receipts, and other moneys of the county attributable to fiscal 2025 and legally available.

The POBs are payable from any lawfully available funds of the county subject to appropriation. The county covenants to budget and appropriate required annual debt service payments.

LRBs are payable from lease payments made by the county for the use of various county assets, subject to abatement. Lease provisions are standard with a covenant to budget and appropriate for use and occupancy of a variety of assets.

## **FITCH'S LOCAL GOVERNMENT RATING MODEL**

The Local Government Rating Model (LGRM) generates Model Implied Ratings (MIR) which communicate the issuer's credit quality relative to Fitch's local government rating portfolio (the MIR will be the IDR except in certain circumstances explained in the applicable criteria). The MIR is expressed via a numerical value calibrated to Fitch's long-term rating scale that ranges from 10.0 or higher ('AAA'), 9.0 ('AA+'), 8.0 ('AA'), and so forth down to 1.0 ('BBB-' and below).

Model Implied Ratings reflect the combination of issuer-specific metrics and assessments to generate a Metric Profile (MP), and a structured framework to account for Additional Analytical Factors (AAFs) not captured in the Metric Profile that can either mitigate or exacerbate credit risks. AAFs are reflected in notching from the MP and are capped at +/-3 notches.

## **RATINGS HEADROOM & POSITIONING**

Riverside County Model Implied Rating: 8.48 ('AA')

-- Metric Profile: 7.48 ('AA-')

-- Net Additional Analytical Factor Notching: +1.0

Individual Additional Analytical Notching Factors:

-- Economic and Institutional Strength: +1.0

Riverside County's Model Implied Rating of 8.48 is in the middle of the 8.0 to 9.0 range for its current 'AA' rating.

## **KEY RATING DRIVERS**

## **FINANCIAL PROFILE**

## Financial Resilience - 'a'

Riverside County's financial resilience is driven by the combination of its 'Low' revenue control assessment and 'Midrange' expenditure control assessment, culminating in a 'Limited' budgetary flexibility assessment.

-- Revenue control assessment: Low

-- Expenditure control assessment: Midrange

-- Budgetary flexibility assessment: Limited

-- Minimum fund balance for current financial resilience assessment:  $\geq 10.0\%$

-- Current year fund balance to expenditure ratio: 16.0% (2023)

-- Five-year low fund balance to expenditure ratio: 11.7% Analyst Input (vs. 8.3% 2023 Actual)

## Revenue Volatility - 'Weak'

Riverside County's weakest historic three-year revenue performance has a modest negative impact on the Model Implied Rating.

The revenue volatility metric is an estimate of potential revenue volatility based on the issuer's historical experience relative to the median for the Fitch-rated local government portfolio. The metric helps to differentiate issuers by the scale of revenue loss that would have to be addressed through revenue raising, cost controls or utilization of reserves through economic cycles.

-- Lowest three-year revenue performance (based on revenues dating back to 2005): 7.3% decrease for the three-year period ending fiscal 2011

-- Median issuer decline: -3.9% (2023)

## Analyst Inputs to the Model

Analyst used the fiscal 2021 fund balance as the five-year low rather than fiscal 2020 or 2019. Based on current year estimates and the proposed budget for fiscal 2025, as well as a relatively recent internal policy to maintain unassigned fund balance (a component of

unrestricted fund balance) at 16.7% of spending. Analyst expects fund balance to remain at or above 17.5% when all unrestricted fund balance is included.

## DEMOGRAPHIC AND ECONOMIC STRENGTH

### Population Trend - 'Strong'

Based on the median of 10-year annual percent change in population, Riverside County's population trend is assessed as 'Strong'.

Population trend: 1.3% 2022 median of 10-year annual percent change in population (64th percentile)

### Unemployment, Educational Attainment and MHI Level - 'Weak'

The overall strength of Riverside County's demographic and economic level indicators (unemployment rate, educational attainment, median household income [MHI]) in 2023 are assessed as 'Weak' on a composite basis, performing at the 36th percentile of Fitch's local government rating portfolio. This is due to low education attainment levels and high unemployment rate offsetting midrange median-issuer indexed adjusted MHI.

-- Unemployment rate as percentage of national rate: 133.3% 2023 (19th percentile), relative to the national rate of 3.6%

-- Percent of population with a bachelor's degree or higher: 24.1% (2022) (33rd percentile)

-- MHI as a percent of the portfolio median: 104.5% (2022) (56th percentile)

### Economic Concentration and Population Size - 'Strongest'

Riverside County's population in 2022 was of sufficient size and the economy was sufficiently diversified to qualify for Fitch's highest overall size/diversification category.

The composite metric acts asymmetrically, with most issuers (above the 15th percentile for each metric) sufficiently diversified to minimize risks associated with small population and economic concentration. Downward effects of the metric on the Metric Profile are most pronounced for the least economically diverse issuers (in the 5th percentile for the metric or lower). The economic concentration percentage shown below is defined as the sum of the absolute deviation of the percentage of personal income by major economic sectors relative to the U.S. distribution.

-- Population size: 2,473,902 (2022) (above the 15th percentile)

-- Economic concentration: 38.8% (2023) (above the 15th percentile)

Demographic and Economic Strength Additional Analytical Factors and Notching: +1.0 notch (for Economic and Institutional Strength)

Riverside County is the core of the Riverside-San Bernardino-Ontario, CA Metropolitan Statistical Area (MSA), with a real metro product equivalent to 1.0% of U.S. GDP. Top taxpayers include Amazon and Costco, reflecting the growth of distribution facilities in the county. Top employers aside from the county include Amazon, March Air Reserve Base, Nestle, University of California at Riverside, Wal-Mart and Kaiser Permanente Riverside Medical Center.

## **LONG TERM LIABILITY BURDEN**

### **Long-Term Liability Burden - 'Midrange'**

Riverside County's liabilities to personal income has deteriorated while carrying costs to governmental expenditures remain midrange and liabilities to governmental revenue remain moderately strong. The long-term liability composite metric in 2023 is at the 52nd percentile, roughly in line with Fitch local government rating portfolio.

-- Liabilities to personal income: 5.8% Analyst Input (46th percentile) (vs. 5.9% 2023 Actual)

-- Liabilities to governmental revenue: 145.8% Analyst Input (66th percentile) (vs. 148.3% 2023 Actual)

-- Carrying costs to governmental expenditures: 14.8% Analyst Input (50th percentile) (vs. 15.0% 2023 Actual)

## **PROFILE**

The county is the fourth largest in California, covering about 7,300 square miles with a population of approximately 2.5 million. It is a higher-growth region with less maturity than its coastal neighbors and so may experience higher-than-average economic volatility in its tax base.

Riverside County's economy remains well-situated for continued population and economic growth over the long term owing to its relative affordability, capacity for additional

development, proximity to employment centers including San Bernardino, Orange and Los Angeles Counties, and a location along major transportation and distribution routes. The county benefits from this trend both as a recipient of increased sales taxes due to the Wayfair decision allowing online sales taxes to be collected and distributed in the destination state, as well as the property tax revenues of these distribution centers.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **ESG CONSIDERATIONS**

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

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## APPLICABLE CRITERIA

[U.S. Public Finance Local Government Rating Criteria \(pub. 02 Apr 2024\) \(including rating assumption sensitivity\)](#)

## APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

U.S. Local Government Rating Model, v1.2.0 ([1](#))

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Riverside County (CA)

EU Endorsed, UK Endorsed

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