S&P Global Ratings

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Summary:

Riverside County, California; Appropriations; General Obligation

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Credit Profile		
US$547.385 mil lse rev bnds (Mead Valley Wellness Village Project) ser 2024 dtd 06/06/2024 due 11/01/2059		
Long Term Rating	AA-/Stable	New
Riverside Cnty GO ICR		
Long Term Rating	AA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA-' long-term rating to the California Enterprise Development Authority's anticipated $547.385 million series 2024 lease revenue bonds (Mead Valley Wellness Village), 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); its 'AA-' long-term rating and SPUR on the county's existing lease revenue bonds and certificates of participation (COPs); and its 'A+' rating on the California Enterprise Development Authority's series 2019 lease revenue bonds, issued for the county.
- The outlook is stable.

Security

The series 2024 lease revenue bonds are secured by base rental payments made by the county, as tenant, to P3 Riverside Holdings LLC, as the landlord, for the use and possession of leased assets, through a lease-leaseback structure, whereby the county will make periodic base rental payments to pay debt service on the bonds. We note that the landlord will assign its rights to receive payments to the trustee pursuant to a lease assignment agreement, and all base rental payments from the county will be made directly to the trustee. The leased assets, which include various facilities that will comprise the Mead Valley Wellness Village, have yet to be constructed. We understand that the bonds will be structured with capitalized interest that extends out to June 1, 2027, or approximately six months after the expected completion date of the five buildings. The county has covenanted to budget and appropriate base rental payments for the use of the leased assets. The transaction documents do not require a debt service reserve, but we believe the sufficient lag between the start of the county's fiscal year (June 30) and the lease payment dates (April 15 and Oct. 15) allows for late budget adoption. The county may abate base rental payments in the event of damage to or the destruction of the assets. To mitigate abatement risk in such a case, the county has covenanted to maintain rental interruption insurance coverage equal to the maximum lease payments due in any 24-month period.

We understand that the tenant, Riverside County, will primarily be responsible for maintaining the Mead Valley Wellness facilities. Riverside University Health System (RUHS), an agency of the county, will operate the wellness facilities. The legal documents restrict the P3 Riverside Holdings LLC's business activities to solely the operation of the wellness facilities, and all lease payments will be made by the county directly to the trustee (Wilmington Trust, National Association).

Proceeds of the 2024 lease revenue bonds will be used to design and construct five separate facilities that comprise the Mead Valley Wellness Village, a mental health services center that will be operated by RUHS.

The county's outstanding 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. 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 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 continued to grow its available general fund reserve balance during the past several years, most recently reaching very strong levels in fiscal 2023 with reserves ending at approximately 16% of expenditures. The increase in reserve levels reflects the county's strong budgetary general fund performance, driven by continued growth in both property tax and sales tax revenue in each of the past three fiscal years. For fiscal 2024, management projects ending the year with another surplus and an increase to its reserves. For fiscal 2025, management expects to maintain balanced operations and does not expect to significantly draw on its reserves to materially weaker levels. 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 operating surpluses reported in each of the past three fiscal years, driven by continued growth in both property tax and sales tax revenue;
- Very strong budgetary flexibility, with available general fund reserves rising to 16% of expenditures as of fiscal 2023, with a projection of increased reserve in fiscal 2024;

- Very strong liquidity and access to external liquidity we consider exceptional;
- Adequate debt and contingent liability profile with pension costs that are likely to grow modestly in the near-term; and
- Strong institutional framework score.

Environmental, social, and governance factors

We analyzed the county's environmental, social, and governance (ESG) factors relative to its economy, management, financial measures, and its debt and liability profile. We believe the county's tax base is somewhat exposed to environmental risk factors posed by the threat of wildfires and seismic activity. We consider the county's social and governance factors neutral within our credit analysis.

Outlook

The stable outlook reflects our expectation that the county will maintain balanced operations at a minimum without needing to materially draw down its reserves to weaker levels. The outlook also reflects our view of the county's modestly growing tax base, which reflects the continued economic development within the region.

Downside scenario

The rating could be lowered if the county's reserves fall to materially weaker levels with a projection of further declines 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 the county's major revenue streams declining.

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 maintains general fund reserves at very strong levels with a projection to sustain them during the next several years.

Credit Opinion

Strong economy driven by continued growth in its tax base

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 and spanning approximately 7,177 square miles. 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's tax base continues to grow with AV increasing by 9.4% to $413 billion in fiscal 2024. The county's AV has grown in each of the past 10 fiscal years and management expects this trend will likely continue, driven by both continued economic activity, property development within the county, and the strength of the housing market that reflects continued strong demand for residential properties in the region.

Very strong management reflecting robust institutionalized policies and practices that help the county identify long-term challenges

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 reserves at no less than 25% of ongoing discretionary revenue. Management indicates that the county has been aiming higher, with two months of general fund operating expenditures as a guiding principle. Reserves are used for emergencies and in certain circumstances to balance the budget.
- The county maintains cyber security policies and practices that include annual security awareness training and continual monitoring. We understand the county also maintains cybersecurity insurance.

Strong budgetary performance with operating surpluses during the past several years that drive reserves to higher levels

The county continues to report operating surpluses in its general fund, driven by continued growth in both property tax and sales tax revenues in fiscal 2023. Property taxes comprise the county's largest revenue stream, representing approximately 38% of total general revenues in fiscal 2023. Sales tax revenues make up a much smaller percentage at only 4% of total general revenue. Both property tax and sales tax revenues have grown steadily during the past several years and management expects similar results for fiscal 2024, notably with a projected 10% increase in property tax revenues compared to fiscal 2023 levels. We understand the county projects ending fiscal 2024 with another operating surplus with available general reserves increasing by approximately $122 million. For fiscal 2025, management expects to maintain balanced operations at a minimum and does not foresee any need to materially draw on its general fund reserves. The past surpluses have resulted in stronger reserve levels with general fund reserves reaching 16% of expenditures in fiscal 2023. Overall, we expect the county to maintain similar level of reserves going forward.

Very strong liquidity with good investment results governed by the county's investment policy

The county continues to maintain very strong cash levels in fiscal 2023. Management notes that investment returns have increased substantially in recent years, primarily due to high interest rates in the current economic environment. Most of the county's cash is invested with the county treasurer's pooled investment fund, which we do not consider aggressive. 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.

Adequate debt and contingent liability profile with increasing pension costs likely in the near-term

The county's debt burden has not substantially increased despite the current 2024 issuance of appropriation debt. We understand the county regularly issues additional debt to fund its capital projects and is offset by the continuous amortization of the county's existing debt. We expect the county's debt burden to remain in line with current levels during the next few years.

Pension costs at the county are likely to increase, driven by higher contribution rates and weaker investment returns under CalPERS. The pension system reported a negative return of 6.1% in fiscal 2022 and a 5.8% increase in fiscal 2023. While the 5.8% increase was an improvement from the previous year, we note that this return was still less than the discount rate of 6.8% for the safety and miscellaneous plans, which will likely result in higher pension costs for the county. While we expect pension costs to rise, 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, 2022:

- CalPERS safety plan: $975.1 million in net liability, or 78.7% funded;
- CalPERS miscellaneous plan: $2.4 billion, or 75.4% funded; and
- The county's single-employer other postemployment benefit (OPEB) plan: $171 million in net liability or 30.9% funded, inclusive of the implied subsidy.

We do not view pension or OPEB contributions as a significant financial stress for Riverside County. We note that the county maintains two Section 115 Pension Trusts, which help mitigate future contribution rate volatility. The balance of the two trusts reached $154.9 million as of March 31, 2024. The county also maintains an OPEB trust, which contains $125.6 million as of March 31, 2024.

Strong institutional framework

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

Riverside County, California--key credit metics

	Most recent	Historical information		
		2023	2022	2021
Strong economy				
Projected per capita EBI % of U.S.	84.22			
Market value per capita ($)	160,955			
Population			2,514,194	2,488,522
County unemployment rate(%)			4.2	
Market value ($000)	404,671,367	365,697,639	333,172,330	315,560,315
Ten largest taxpayers % of taxable value	1.14	1.13	1.13	1.11

Riverside County, California--key credit metics (cont.)				
	Most recent	Historical information		
		2023	2022	2021
Strong budgetary performance				
Operating fund result % of expenditures		2.96	2.42	4.40
Total governmental fund result % of expenditures		4.10	12.58	5.10
Very strong budgetary flexibility				
Available reserves % of operating expenditures		16.10	13.23	11.68
Total available reserves ($000)		670,437	492,357	421,777
Very strong liquidity				
Total government cash % of governmental fund expenditures		44.96	47.95	41.48
Total government cash % of governmental fund debt service		1,042.02	877.81	896.23
Very strong management				
Financial Management Assessment	Strong			
Adequate debt & long-term liabilities				
Debt service % of governmental fund expenditures		4.32	5.46	4.63
Net direct debt % of governmental fund revenue	51.84			
Overall net debt % of market value	3.76			
Direct debt 10-year amortization (%)	61.48			
Required pension contribution % of governmental fund expenditures		10.24		
OPEB actual contribution % of governmental fund expenditures		0.37		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- U.S. Local Governments Credit Brief: California Counties And Municipalities Means And Medians, Oct. 12, 2023
- Pension Spotlight: California, Oct. 17, 2023
- 2022 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of May 8, 2024)		
Riverside Cnty APPROP		
Long Term Rating	AA-/Stable	Affirmed
Riverside Cnty APPROP		
Long Term Rating	AA-/Stable	Affirmed
Riverside Cnty GO		
Long Term Rating	AA/Stable	Affirmed

Ratings Detail (As Of May 8, 2024) (cont.)		
Riverside Cnty GO (BAM)		
Long Term Rating	AA/Stable	Affirmed
Riverside Cnty GO (BAM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Riverside Cnty GO (BAM) (SECMKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Riverside Cnty GO (MBIA) (MBIA of Illinois)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
California Enterprise Development Authority, California		
Riverside County, California		
California Enterprise Dev Auth (Riverside Cnty) lse rev bnds (Riverside Cnty) (Reiverside County Library Facs Proj) ser 2019 due 02/01/2051		
Long Term Rating	A+/Stable	Affirmed
Riverside County Asset Leasing Corp., California		
Riverside County, California		
Riverside Cnty Asset Lsg Corp Taxable Lse Rev Rfdg Bnds (Riverside Cnty Technol Rfdg Proj)		
Long Term Rating	AA-/Stable	Affirmed
Riverside Cnty Asset Lsg Corp (Riverside Cnty)		
Long Term Rating	AA-/Stable	Affirmed
Riverside Cnty Asset Lsg Corp (Riverside Cnty) lse rev bnds (pub defender and info technol bldg projs)		
Long Term Rating	AA-/Stable	Affirmed
Riverside Cnty Asset Lsg Corp (Riverside Cnty) APPROP		
Long Term Rating	AA-/Stable	Affirmed
Riverside County Infrastructure Financing Authority, California		
Riverside County, California		
Riverside Cnty Infrastructure Fing Auth lse rev rfdg bnds (federally taxable)		
Long Term Rating	AA-/Stable	Affirmed
Riverside Cnty Infrastructure Fing Auth lse rev rfdg bnds (Riverside Cnty)		
Long Term Rating	AA-/Stable	Affirmed
Riverside Cnty Infrastructure Fing Auth lse rev rfdg bnds		
Long Term Rating	AA-/Stable	Affirmed
Riverside Cnty Infrastructure Fing Auth (Riverside Cnty) lse rev bnds		
Long Term Rating	AA-/Stable	Affirmed
Riverside Cnty Infrastructure Fing Auth (Riverside Cnty) lse rev rfdg bnds		
Long Term Rating	AA-/Stable	Affirmed
Riverside Cnty Infrastructure Fing Auth (Riverside Cnty) lse rev rfdg bnds (Riverside Cnty) ser 2021A due 11/01/2032		
Long Term Rating	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		
Long Term Rating	AA-/Stable	Affirmed

Many issues are enhanced by bond insurance.