

# RatingsDirect®

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## Summary:

# Riverside County, California; Note

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## Summary:

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### Credit Profile

US\$360.0 mil 2022 TRANs due 06/30/2023

*Short Term Rating*

SP-1+

New

## Rating Action

S&P Global Ratings assigned its 'SP-1+' short-term rating to Riverside County, Calif.'s anticipated pro forma \$360 million series 2022-2023 tax and revenue anticipation notes (TRANs).

The notes are secured by all legally available revenue of the county attributable to fiscal 2023 and mature on June 30, 2023.

### Credit overview

The county's current projections for fiscal 2023 are based on the county's fiscal 2023 approved budget, and we note that the cash flow projections do not include significant federal stimulus funding, such as \$479 million of American Rescue Plan Act (ARPA) funds received in May 2021 and June 2022. The county conservatively estimates to end the year with a reduction in cash balances, but we expect that the ending cash position will exceed these projections. The county has a strong revenue base in property taxes that we anticipate will continue to grow based on stored assessed valuation (AV) under Proposition 13. We expect the county's history of strong positive variance of projected ending cash balances to actuals will continue in fiscal 2023.

For more information on our view of the county's long-term rating, see the article published Sept. 16, 2021, on RatingsDirect.

The rating reflects our view of the county's:

- Very strong projected coverage of 1.6x at maturity;
- Availability of alternative liquidity that the county can use for repayment during the life of the notes, boosting coverage to a very strong 6.9x at maturity;
- Broad and diverse economy and strong long-term creditworthiness; and
- History of conservative cash flow projections with actual results that consistently exceed projections.

### Environmental, social, and governance

We analyzed the county's environmental, social, and governance (ESG) risks in coming to a credit opinion on the notes. Although wildfires have broadly affected California, we do not consider wildfire within the county a significant risk given the county's vast geographic area and the fact that property values are concentrated in urban areas with little combustible vegetation. The county also has elevated exposure to seismic risk; however, we believe this risk is mitigated in part by strong state building codes. We consider the county's social and governance risk to be neutral

within our short-term credit analysis.

## Credit Opinion

### Note provisions

The county will deposit 60% of the note principal into the note repayment fund on Jan. 31, 2023 and 40% of the note principal and all interest into the note repayment fund on May 31, 2023. According to the resolution and financing certificate, on and after the set-aside dates, the county will deposit into the TRANs repayment fund the unrestricted taxes, income, revenue, cash receipts, and other money of the county attributable to fiscal 2023, and lawfully available for payment. The repayment fund will be held by the trustee and invested in the county treasury pool. We understand the county intends to also invest the TRAN proceeds in its treasury pool.

### Coverage

Based on the county's cash flow forecast, we calculate that coverage for the 2022-2023 TRANs at maturity will be a very strong 1.6x. The county's cash flows indicate payment set asides in January and May, which correspond with property tax apportionment dates. Projected coverage at both Jan. 31, 2023 and May 31, 2023 is very strong at 1.9x and 1.8x, respectively. The county also benefits from alternative liquidity that total approximately \$2 billion, and they have indicated these amounts do not include any federal stimulus funds or any prior bond proceeds. These sources bring coverage at maturity to 6.9x, according to our calculation. County officials report that transfers of these alternative cash sources do not require board action.

Riverside County's cash flow assumes 3.4% growth in secured property tax revenue in fiscal 2023, which is consistent with the assessor's preliminary estimates. The county has conservatively estimated that its cash position will decrease in fiscal 2023, consistent with its trend of conservative beginning cash and revenue projections. For expenditures, salary and postemployment benefit contribution increases are included in the cash flow estimates. Overall, projected cash flows indicate disbursements in excess of revenue by about \$57.8 million for fiscal 2023; however, overall cash-flow assumptions have had positive variations for the past several years, resulting in stronger-than-projected coverage. We expect the county will continue its trend of positive variance for fiscal 2023. Although we believe the individual revenue and expenditure line-item results may fluctuate somewhat, the general fund has historically maintained strong budgetary flexibility.

## Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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