Summary:

Riverside County, California; Note

Primary Credit Analyst:
Michael Parker, Centennial + 1 (303) 721 4701; michael.parker@spglobal.com

Secondary Contact:
Li Yang, San Francisco (1) 415-371-5024; li.yang@spglobal.com

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Credit Profile		
US$340.0 mil TRANs ser 2019 dtd 07/01/2019 due 07/02/2020		
Short Term Rating	SP-1+	New

Rationale

S&P Global Ratings assigned its 'SP-1+' short-term rating to Riverside County, Calif.'s 2019 tax and revenue anticipation notes.

Security and structure

The notes are secured by taxes, income, revenue, and cash receipts available for payment of current expenses attributable to the general fund for the fiscal year ending June 30, 2020. We understand that the county will use note proceeds to address cash flow needs in fiscal 2020.

The notes will mature on June 30, 2020, with early set-aside of note repayments with a paying agent in the 2019 note payment account. We understand that the set-aside periods include an amount equal to 60% of principal and interest set aside on Jan. 31, 2020, and 40% of principal and interest on May 31, 2020. However, S&P Global Ratings does not view the early set-aside of pledged funds as enhancement of a note rating, as provision of additional security, or as protection from investment losses because we still consider those segregated moneys as funds of the county.

The rating reflects our opinion of the county's:

- Cash flow projections that reflect good, 1.35x coverage of note principal at the June 30, 2020, maturity date, and
- Very strong coverage over 6x when considering alternative liquidity at maturity.

Coverage and cash flow

The county is projecting the general fund cash balance will total $131.6 million at June 30, 2020. Projected cash in the general fund and deposits into the repayment fund would cover principal and interest by what we consider a good 1.35x at maturity. The county reported available projected alternative liquidity of $1.75 billion at maturity, which is consistent from previous years. Factoring in the county's projected alternative liquidity, coverage would improve to a very strong 6.34x.

Earlier, the county had projected coverage of 1.36x on its previously issued notes for June 28, 2019. Based on actuals through April 2019 (projections for May and June), coverage is slightly better, at 1.38x, partially due to expenses being lower than original projections. More specifically, the county's labor costs are lower than expected due to the delayed opening of a detention center. For the notes being issued for fiscal 2020, if adjusting coverage at maturity (excluding alternative liquidity) based on the variance between projected and actual coverage for fiscal 2019, coverage would remain good, at 1.37x.

The county's fiscal 2020 general fund cash flow projections include a 5.6% increase in revenue, excluding note proceeds. Revenue growth is primarily related to increases in certain state and federal aid and additional revenue from charges for services. In addition, the county has projected a 5% increase in property taxes, which we understand is in line with projected assessed valuation (AV) growth. Expenditures are projected to increase 6.7%, which is largely attributable to growing salaries and benefits from regular salary increases, rising pension costs, increased costs for general assistance, and the hiring of additional staff for a new detention center, now set to open during the fiscal 2020 year. We understand the contracts with several of the county employees' bargaining units have expired, and the county is currently in negotiations with the labor organizations for new contracts and is operating under the terms of the expired contracts until new contracts are agreed upon. Management reported that it has not offered, nor does it expect to settle agreements with, cost-of-living adjustments beyond current contracts. We note that the county recently settled with one of its largest bargaining units (by number of employees). The contract extends through March of 2021, and county officials have incorporated associated salary increases into cash flow projections for fiscal 2020.

Although operational performances have varied in recent years, the county's overall financial profile is stable, supported by sustained good to strong available reserves in the last several years. The county has experienced general fund deficits in two of the last three audited years, and more recently, in fiscal 2018 (the most recent audited year), the county ended the year with a $21.4 million surplus. Management attributes the recent positive performance to strong revenue growth and certain cost containment measures put in place, such as across-the-board budget cuts and the implementation of a hiring freeze, in addition to some recruitment challenges in certain departments. The county's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2018 of 9% of operating expenditures, or $270 million. State and federal aid makes up the majority of general fund revenue (65%), followed by charges for services (16%) and locally derived taxes (10%). In the last three years, general fund revenue growth has averaged 3.3% annually. Expenditures have increased at a similar pace, but by a slightly lower at an annual average of 2.8% in the last three years.

Economy

Riverside County, located in southern California from the Arizona border to within 20 miles of the Pacific Ocean, is the fourth-largest county in the state by acreage and has an estimated population of 2.44 million. The county is also part of the Riverside-San Bernardino-Ontario, Calif., metropolitan statistical area, which we consider to be broad and diverse. Employment in the area is led by government, education, and health services. Retail trade and leisure and hospitality are also prevalent. The county is a center for transportation and warehousing due to the access to several freeways and the proximity to the Los Angeles port. Median household effective buying income (EBI) is good, in our view, at 105% of the national level. We note that per capita EBI is lower at 79% of the national average, a level we consider adequate. The county unemployment rate was 4.4% in 2018. The county experienced its sixth consecutive year of AV growth, with AV increasing by an average annual rate of 6.3% to a preliminary value of $286 billion in fiscal 2019, equal to an estimated per capita market value of $110,000. The recent AV resilience is partly due to vitality within the county's economy, which includes relatively strong single-family residential AV growth. Finally, the county's local tax base is not concentrated, as the top 10 taxpayers account for only about 2.7% of total AV, which we consider very diverse.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed