S&P Global Ratings

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Summary:

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

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Credit Profile		
US$49.375 mil lse rev rfdg bnds (Riverside Cnty) (Riverside County Indo Law Building) ser 2017A due 11/01/2044		
Long Term Rating	AA-/Stable	New
US$11.045 mil lse rev rfdg bnds (Riverside Cnty) ser 2017B dtd 12/28/2017 due 05/01/2038		
Long Term Rating	AA-/Stable	New
US$9.745 mil lse rev bnds (Riverside Cnty) ser 2017C dtd 12/28/2017 due 05/01/2047		
Long Term Rating	AA-/Stable	New
Riverside Cnty ICR		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to the Riverside County Infrastructure Financing Authority, Calif.'s series 2017A and 2017B lease revenue refunding bonds and series 2017C lease revenue bonds, issued for 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 all pension obligation bonds (POBs), lease revenue bonds, and certificates of participation (COPs) issued for the county. The outlook is stable.

Finally, S&P Global Ratings affirmed its 'AAA/A-1+' 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. (AA-/A-1+).

The 2017A and 2017B lease revenue refunding bonds, along with the 2017C lease revenue bonds, are secured by base rental payments made by the county, as lessee, to the Riverside County Infrastructure Financing Authority, as lessor, for the use and possession of leased assets, through a lease-leaseback structure, whereby the county will make periodic base rental payments sufficient to amortize the lease revenue bonds. The county has covenanted to budget and appropriate base rental payments for the use of the leased assets. Payments are triple net, without right of set-offs, and the county is responsible for maintenance, taxes, and utilities. 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. In addition, we evaluated the seismic risk of each leased asset pursuant to our criteria and estimated that none of the leased assets has a greater than 5% probability of incurring 25% damage during the life of the bonds. The leased assets include the County Law Building, the Perris Sheriff Coroner's Office Building, the Perris Sheriff Station, and the South West Animal Shelter. The county does not expect to have a debt service reserve on the bonds, but base rental payment dates occur on Oct. 15 and April 15, more than 90 days after the start of the county's fiscal year, and we believe that this mitigates payment risk associated with late budget adoption.

For existing debt, the county's lease revenue bonds are secured by base rental payments to be made by the county for the use and occupancy of certain leased premises. The county has covenanted to budget and appropriate base rental payments to meet its obligations under the lease agreements supporting the lease revenue bonds. The COPs have an interest in the county's base rental payments, which the county covenants to budget and appropriate.

The POBs are secured by any available sources of the county's general fund revenue, based on the county's absolute and unconditional obligation to make debt service payments.

Proceeds of the 2017A lease revenue refunding bonds will be used refund the county's series 2013 lease revenue bonds outstanding and to pay the costs of issuance. The series 2017B and 2017C lease revenue refunding and lease revenue bond proceeds will be used to refund the county's series 2008A variable-rate demand leasehold revenue refunding bonds, to finance the acquisition and construction of certain capital improvements, and to pay the costs of issuance.

The ratings reflect our assessment of the following factors for the county, specifically its:

- 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;
- Weak budgetary performance, with a slight operating deficit in the general fund and an operating deficit at the total governmental fund level in fiscal 2016;
- Strong budgetary flexibility, with an available fund balance in fiscal 2016 of 9.7% of operating expenditures;
- Very strong liquidity, with total government available cash at 34.0% of total governmental fund expenditures and 10.5x governmental debt service, and access to external liquidity we consider exceptional;
- Strong debt and contingent liability position, with debt service carrying charges at 3.2% of expenditures and net direct debt that is 41.3% of total governmental fund revenue; and
- Strong institutional framework score.

Strong economy

We consider the county's economy strong. Riverside County, with an estimated population of 2.4 million, is located in the Riverside-San Bernardino-Ontario, Calif. MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 80.7% of the national level and per capita market value of $112,769. Overall, the county's market value grew by 5.2% over the past year to $268.9 billion in 2018. The county unemployment rate was 6.1% in 2016.

Riverside County, located in southern California, is the state's fourth-largest county by area, stretching 185 miles from the Arizona border to within 20 miles of the Pacific Ocean. There are 29 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, and 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. Following a decade of real estate expansion and subsequent recessionary declines, Riverside County's tax base is growing. The county experienced a fifth consecutive year of assessed value (AV) growth, with AV increasing by an average annual rate of 5.7% to a preliminary value of $269 billion in fiscal 2018. 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 2.5% of total AV, which we consider very diverse.

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.

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, swaps and derivatives, and criteria for debt issuance. The county has a policy of maintaining economic uncertainty funds at no less than 15% of ongoing discretionary revenues, with additional contingency funds of $20 million (approximately 3.5% of discretionary revenues). Economic uncertainty funds are used only for emergencies (and are thus rarely used); however, contingency reserve balances are often used but are subsequently restored. In our opinion, management's proactive financial management practices--for example, taking midyear action to mitigate a decline in revenue--have helped the county's financial performance in recent years.

Weak budgetary performance

Riverside County's budgetary performance is weak in our opinion. The county had slight deficit operating results in the general fund of 1.3% of expenditures, and deficit results across all governmental funds of 3.0% in fiscal 2016.

Although the county's recent operational performance was weak, in our view, the county's overall financial profile is stable. According to management, the county used portions of its general fund balances to finance ongoing expenditures in 2016, but doesn't expect to do so moving forward. The county has historically closed out the year with better-than-budgeted results, which it also did in fiscal 2016. State and federal aid makes up the majority of general fund revenue (63%), followed by charges for services (18%) and locally derived taxes (8%). In the last three years, general fund revenue growth has averaged 6.1% annually. Expenditures have increased at a similar pace, but by a slightly higher annual average of 6.7% in the last three years.

Over the medium term, we anticipate discretionary budget pressure stemming from negotiated salary and benefit increases and the opening of a new detention facility. In the absence of additional discretionary revenue to finance ongoing cost increases related to the east county detention center, the county may need to continue to take action in the next two to three years to avoid a structural deficit. As of now, the county has halted additional hiring for the new detention center facility to help reduce ongoing costs. Moreover, the county closed out all vacant positions (roughly 19,275) across all departments. According to 2017 unaudited financial statements, the county is expecting to close out the 2017 fiscal year with a modest general fund deficit of $17 million, or less than 1% of general fund expenditures. The county's fiscal 2018 budget shows a deficit, but officials are projecting at least balanced operations to end the year. According to the county's 2018 unaudited quarterly financial statement, discretionary revenue is tracking in line with original budget projections.

The county has prefunded some of its pension and other postemployment benefit (OPEB) liabilities through an irrevocable trust, and according to county officials, the trusts' current market value is approximately a combined $44 million. Furthermore, county officials are looking to ramp up contributions to the trusts as pension costs are expected to rise in the coming years.

Strong budgetary flexibility

Riverside County's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2016 of 9.7% of operating expenditures, or $269.5 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 10.0% of expenditures in 2015 and 9.9% in 2014.

Budgetary flexibility includes committed funds set aside that can be used with the board's discretion, as well as a combined $175 million (roughly 6%) in reserves designated for budget stabilization and economic uncertainties. Based on projected results for fiscal 2017, the county is expecting similar reserve levels relative to expenditures, which maintain the county's strong budgetary flexibility. The county does not plan to significantly alter reserve levels in fiscal 2018; we expect financial performance to lead to similar fund balances and flexibility next year. The county board goal is to maintain general fund discretionary reserves at 25% of discretionary revenue for the year in progress. According to management, the county expects to reach its target by the 2022 fiscal year.

Very strong liquidity

In our opinion, Riverside County's liquidity is very strong, with total government available cash at 34.0% of total governmental fund expenditures and 10.5x governmental debt service in 2016. In our view, the county has exceptional access to external liquidity if necessary.

The county is a frequent issuer of both short-term debt (commercial paper 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. The county issued TRANs at the beginning of the fiscal 2018 year, which we rated 'SP-1+' (for more information, see the article published June 1, 2017, on RatingsDirect). The county used the 2017 TRAN note proceeds to address cash flow needs in fiscal 2018 and to prepay its California Public Employees' Retirement System (CalPERS) contribution in order to realize savings, given the prepayment discount. The majority of the county's cash is invested with the county treasurer's pooled investment fund (TPIF), which we do not consider aggressive. While not rated by S&P Global Ratings, the TPIF consists primarily (75% or more) of investments with a weighted average maturity of under one year and with individual S&P Global Ratings credit ratings of at least 'AA-'.

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 3.2% of total governmental fund expenditures, and net direct debt is 41.3% of total governmental fund revenue.

Management reports that the county has no official plans to issue additional debt in the near term. The county's conduit issuer (County of Riverside Asset Leasing Corp., or CORAL) has an interest rate swap on its 2008A variable-rate lease revenue bonds. Under the swap agreement, the counterparty (Wells Fargo N.A.) could terminate if CORAL's rating fell below BBB+/Baa1, a risk we currently view as remote. We note that following the issuance of the series 2017B and 2017C lease revenue and lease revenue refunding bonds, the 2008A bonds will be refunded in full. The county recently entered into a facilities lease agreement with a local developer to construct a new medical office building on the Riverside University Health System Medical Campus in Moreno Valley. The lease obligation totals approximately $195 million, and the county expects rental payments to come from Riverside University Health System revenues. Upon the completion of the project (expected in 2020), the Riverside University Health System will commence monthly lease payments for a 25-year term, subject to annual payment increases of 3%. We understand there are no provisions in the lease agreement that permit acceleration or payment prioritization for the county.

Riverside County's combined required pension and actual OPEB contributions totaled 6.3% of total governmental fund expenditures in 2016. The county made 113% of its annual required pension contribution in 2016.

The county participates in the CalPERS for employee pension benefits, and the county made its full annual required pension contribution in 2016. The county's most recent (June 2016) report projects the actuarial funded status of the CalPERS miscellaneous plan and safety plan to be 70.1% and 69.2%, respectively, and newly implemented employer rate changes will increase annual pension contributions over the next five to six years, with projected declines thereafter. The county closely monitors its retirement obligations, and contracts with a third-party consultant to prepare actuarial projections for pension and OPEB funding status and anticipated rate changes. Based on data provided in the county's fiscal 2016 audit, the county has a $6.7 million OPEB unfunded actuarially accrued liability with an 83.6% funded ratio. The county plans to increase funding to its irrevocable trust for pensions and OPEBs in the coming years. Combined pension and OPEB carrying charges totaled 6.3% of total governmental fund expenditures in 2016.

Strong institutional framework

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

Outlook

The stable outlook reflects our view of the growing and stable economy within the broad and diverse Riverside-San Bernardino-Ontario MSA. The stable outlook also reflects our view of the county's strong budgetary flexibility and our expectation that reserves will remain strong in the near term. Furthermore, the stable outlook reflects the county's strong financial policies and practices in place. We do not expect to raise the ratings within the two-year outlook horizon.

Upside scenario

We could raise the ratings over the next two years should the county's projected financial performance improves, leading to the maintenance of reserves at a level we consider very strong, or if key economic indicators, including income levels and per capita market value, strengthen to levels comparable with those of higher-rated peers.

Downside scenario

If the county's budgetary performance weakens on a sustained basis, leading to a depletion of reserves, we could consider lowering the ratings.

Related Research

2017 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of November 16, 2017)		
Riverside Cnty rfdg COPs		
Long Term Rating	AA-/Stable	Affirmed
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
Riverside Cnty (Cap Facs Proj)		
Long Term Rating	AA-/Stable	Affirmed
Riverside Cnty POBs		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Riverside Cnty Asset Lsg Corp, California		
Riverside Cnty, California		
Riverside Cnty Asset Lsg Corp (Riverside Cnty)		
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) lse rev bnds (Cnty of Riverside Cap Proj)		
Long Term Rating	AA-/Stable	Affirmed
Riverside Cnty Asset Lsg Corp (Riverside Cnty) lse rev bnds (County Of Riverside Cap Proj)		
Long Term Rating	AA-/Stable	Affirmed
Riverside Cnty Asset Lsg Corp (Riverside Cnty) APPROP		
Long Term Rating	AA-/Stable	Affirmed
Riverside Cnty Asset Lsg Corp (Riverside Cnty) JOINTCRIT (ASSURED GTY)		
Long Term Rating	AAA/A-1+	Affirmed
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Ratings Detail (As Of November 16, 2017) (cont.)		
Riverside Cnty Asset Lsg Corp (Riverside Cnty) leasehold (Cnty of Riverside Hosp Proj) ser 1997C (RMKTD)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Riverside Cnty (Riverside Cnty Asset Lsg Corp) rfdg certs of part (Cap Facs Proj) ser 2003B dtd 12/04/2003 due 11/01/2004-2018		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Riverside Cnty Infrastructure Fing Auth, California		
Riverside Cnty, California		
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 (Riverside Cnty)		
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
Riverside Cnty Palm Desert Fincg Auth, California		
Riverside Cnty, California		
Riverside Cnty Palm Desert Fincg Auth (Riverside Cnty) APPROP		
Long Term Rating	AA-/Stable	Affirmed
Riverside Comnty Properties Dev, Inc., California		
Riverside Cnty, California		
Riverside Comnty Properties Dev, Inc. (Riverside Cnty) APPROP		
Long Term Rating	AA-/Stable	Affirmed
Southwest Comntys Fing Auth, California		
Riverside Cnty, California		
Southwest Comntys Fing Auth (Riverside Cnty) APPROP		
Long Term Rating	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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.