

**Rating Action: Moody's upgrades Riverside County, CA's issuer rating to Aa2; stable outlook**

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04 Apr 2022

**Upgrades lease-backed debt to Aa3 and POBs to A1**

NOTE: On April 5, 2022, the press release was corrected as follows: In the LEGAL SECURITY section, the second sentence of the third paragraph was revised to "The POBs are payable from any source of legally available funds of the county, including the county's general fund." Revised release follows

New York, April 04, 2022 -- Moody's Investors Service has upgraded Riverside County, CA's issuer rating to Aa2 from Aa3. Concurrently, Moody's has upgraded the rating on the outstanding lease-backed debt to Aa3 from A1, and the rating on the outstanding pension obligation bonds (POBs) to A1 from A2. The county has \$776.5 million of outstanding lease-backed debt and \$881.6 million of outstanding pension obligation bonds (POBs). The outlook is stable.

**RATINGS RATIONALE**

The upgrade of the issuer rating to Aa2 reflects a healthy economy and continued expansion in the diverse tax base, as well as improvement in reserves and strong budget management. The rating also incorporates average resident income, manageable long-term liabilities, and the above-average legal strengths of California GO bonds.

The Aa3 rating on the lease-backed debt is one notch lower than the Aa2 issuer rating, reflecting both the absence of California GO bond security features, which provide uplift to the GO rating, and the weaker legal structure of standard abatement leases, despite the "more essential" nature of pledged assets.

The A1 rating on the pension obligations bonds is two notches lower than the Aa2 issuer rating, reflecting the lack of strong legal features of California GO Bonds as well as the additional risks to creditors from the county's finances and operations. The POBs are unsecured debt paid by general operating revenue. The notching also reflects the relatively poor performance of POBs in Chapter 9 bankruptcies compared to other types of municipal obligations.

**RATING OUTLOOK**

The stable outlook reflects our expectation that the county will maintain a sound financial position consistent with its reserve policy, and tax base growth will continue supported by transportation linkages to major employment centers and ongoing housing development. The outlook also incorporates our expectation that debt and pension burdens will remain manageable.

**FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS**

- Strong financial performance that contributes to significant growth of reserves
- Material decrease in balance sheet leverage
- Improvement in income and wealth metrics

**FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS**

- Weakening of fund balance and/or liquidity
- Deterioration of local economy and income and wealth metrics
- Material increase in balance sheet leverage

**LEGAL SECURITY**

The issuer rating is equivalent to what would be the county's general obligation unlimited tax bond rating. In California, GO bonds are payable from the levy of ad valorem taxes, unlimited as to rate or amount, upon all taxable property within the county.

The lease revenue bonds are payable from lease payments made by the county for use and occupancy of various leased assets which we view "more essential". Lease rental payments are payable from any source of legally available funds of the county.

The county's obligation to make all pension obligation bonds (POB) payments of interest and principal are imposed by law and are absolute and unconditional. The POBs are payable from any source of legally available funds of the county, including the county's general fund. The assets of CalPERS will not secure or be available to pay debt service on the POBs.

#### USE OF PROCEEDS

Not applicable

#### PROFILE

Located in southern California, Riverside County encompasses around 7,177 square miles. The county is the fourth largest in the state by area and stretches 185 miles from the Arizona (Aa1 stable) border to within 20 miles of the Pacific Ocean. There are 28 incorporated cities in the county, with an estimated population of 2.4 million as of 2020. The county provides a wide range of services to residents, including police and fire protection, medical and health services, education, library services, judicial institutions and public assistance programs. The county is governed by a five-member board of supervisors.

#### METHODOLOGY

The principal methodology used in the issuer rating was US Local Government General Obligation Debt published in January 2021 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM\\_1260094](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1260094). The principal methodology used in the lease and pension obligation bond ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US Local Governments Methodology published in March 2022 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM\\_1317546](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1317546). Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

#### REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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