MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa1 to San Diego County, CA's 2021 COPs; stable outlook; affirms outstanding ratings

27 Oct 2021

New York, October 27, 2021 -- Moody's Investors Service has assigned a Aa1 rating to San Diego (County of) CA's Certificates of Participation, Series 2021 (Youth Transition Campus), expected in the amount of $49.8 million. At the same time, Moody's has affirmed the county's Aaa issuer rating, Aa1 ratings on its $211.6 million outstanding certificates of participation (COP) and lease revenue bonds, and Aa2 ratings on its $340.8 million outstanding pension obligation bonds (POBs). The outlook is stable.

RATINGS RATIONALE

The Aaa issuer rating is equivalent to what would be the county's general obligation unlimited tax (GOULT) bond rating and reflects the county's immense and diverse tax base, above-average resident wealth measures, and strong financial profile. The rating also incorporates the county's proactive and conservative management with demonstrated commitment to ensure fiscal stability. The county's low debt and OPEB burden and manageable pension liabilities are strengths.

The Aa1 ratings on the county's COPs and lease revenue bonds are one notch lower than the county's Aaa issuer rating. This reflects both the absence of California general obligation (GO) bond security features, which provide uplift to the GO rating, and the risk of abatement, despite the "more essential" nature of leased assets.

The proposed 2021 COPs will not have a debt service reserve fund. This is a modest negative credit factor that is largely mitigated by the fact that the county has several unencumbered assets that could be substituted as leased assets in the occurrence of an abatement event.

The Aa2 rating on the county's POBs is two notches lower than the county's Aaa issuer rating. This reflects the absence of California general obligation (GO) bond security features, which provide uplift to the GO rating, as well as the additional risks to creditors from the county's finances and operations. The POBs are unsecured debt paid by general operating revenues. 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, its tax base will continue to be robust, and its pension burden will remain manageable. The outlook also reflects our expectation that the county will navigate through economic and financial impacts caused by the coronavirus without materially impacting its long-term credit quality.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- N/A

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Prolonged economic weakness resulting in material deterioration of the tax base, resident wealth or economic diversity

- Significant narrowing of reserves and liquidity

- Ineffective cost controls resulting in persistent structural imbalance

- Inability to manage pension costs

LEGAL SECURITY

The issuer rating is equivalent to what would be the county's general obligation unlimited tax bond rating. In California, local government general obligation bonds are secured by the levy of ad valorem taxes, unlimited as to rate or amount, upon all taxable property within the county. Security is also enhanced by a statutory lien.

The proposed 2021 COPs are secured by base rental payments received by the San Diego County Capital Asset Leasing Corporation from the county under a facility lease. The base rental payments are payable by the county from its general fund for the use and occupancy of certain leased properties, which we view as "more essential". The leased assets securing the 2021 COPs are the Assessor Recorder County Clerk Building (East County), Rancho San Diego Sheriff Station, Alpine Library, Borrego Springs Library and Ramona Library.

Legal provisions for the 2021 COPs include that the county will maintain "all risk" insurance against loss or damage to the related leased properties, as applicable, including flood, but excluding earthquake, as well as rental interruption insurance for 24 months.

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

The county's outstanding POBs are payable from any source of legally available funds of the county, including but not limited to amounts held in its general fund. The county's obligation to make all POB payments of interest and principal are imposed by law and are absolute and unconditional.

USE OF PROCEEDS

Proceeds of the 2021 COPs will finance improvements to the County's Youth Transition Campus for juvenile rehabilitation. This includes 60,000 square feet of new facilities consisting of an office building to support court-related functions and house the offices of the Probation Department's administrative staff, three additional twenty-four-bed housing units, a court holding building, and an educational complex. Proceeds will also finance the demolition of the remaining portion of the existing juvenile hall and its facilities.

PROFILE

San Diego County is the southernmost major metropolitan area in the State of California (Aa2 stable). The county covers 4,261 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County (Aa1 stable), and inland 75 miles to Imperial County (A1). Riverside County (Aa3 stable) and Orange County (Aa1 stable) form the northern boundary. With a population of 3.3 million, San Diego County is the second most populous county in California and fifth largest county by population in the nation.

METHODOLOGY

The principal methodology used in the lease ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments Methodology published in June 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1274696 . 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. Alternatively, please see the Rating Methodologies page on 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.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288235 .

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