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Ratings

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Summary:

Santa Cruz County, California; Note

Primary Credit Analyst:
Cenisa C Gutierrez, San Francisco (510) 206-8913; cenisa.gutierrez@spglobal.com

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

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Credit Profile		
US$48.0 mil 2022-23 TRANs due 07/06/2023		
Short Term Rating	SP-1+	New

Rating Action

S&P Global Ratings assigned its 'SP-1+' short-term rating to Santa Cruz County, Calif.'s $48 million series 2022-2023 tax and revenue anticipation notes (TRANs).

The notes are payable from unrestricted revenues consisting of taxes, income, revenue, cash receipts, and other unrestricted money received by the county in the fiscal year ending June 30, 2023.

Credit overview

The county's current projections for fiscal 2023 are based on its fiscal 2023 approved budget, and we note that the cash flow projections do not include federal stimulus funding. The county is conservatively estimating 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 that 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 August 24, 2021, on RatingsDirect.

The rating reflects our view of the county's:

- Very strong projected coverage of 1.5x 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 2.7x at maturity; 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 risks in coming to a credit opinion on the notes. We believe environmental risks are elevated as a result of wildfire risk within the county. Santa Cruz County includes areas where there is high or extreme risk of wildfires during dry months and periods of prolonged drought. While we expect the financial impact of these fires on the county to be somewhat offset by federal and state aid, we believe that future fires, alongside other environmental risks, including droughts, storm damage from flooding, and earthquakes, could result in increased spending at the county level, along with revenue disruption throughout the taxing base. Finally, we consider the county's governance and social risks in line with the sector.

Credit Opinion

Note provisions

The county will deposit 50% of the note principal into the note repayment fund on Jan. 31, 2023 and 50% of the note principal and all interest into the note repayment fund on April 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 county and invested in the county treasury pool. We understand that 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 1.5x. The county's cash flows indicate payment set-asides in January and April, which correspond with property tax apportionment dates. Projected coverage at both Jan. 31, 2023 and April 30, 2023 is very strong at 3.8x and 3.6x, respectively. The county also benefits from alternative liquidity that totals approximately $54 million, and they have indicated that these amounts do not include any federal stimulus funds or any prior bond proceeds. These sources bring coverage at maturity to 2.7x, according to our calculation.

Santa Cruz County's cash flow assumes 2.3% growth in secured property tax revenue in fiscal 2023. 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. Expenditures pertaining to contingency have more than doubled since the last fiscal year; however, overall expenditures have declined by 14% in the cash flow estimates. Overall, projected cash flows indicate disbursements in excess of revenue by about $15.6 million for fiscal 2023. Although we believe that 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