S&P Global Ratings

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Summary:

San Joaquin County, California; Appropriations

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Table Of Contents

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Credit Profile		
San Joaquin Cnty certs of part		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings raised its underlying rating (SPUR) to 'AA-' from 'A+' on San Joaquin County, Calif.'s series 2017 certifications of participation (COPs).
- The rating action reflects our view of the county's improved economic indicators and financial management policies, as well as its sustained strength in general fund reserves.
- The outlook is stable.

Security

The COPs represent an interest in lease payments made by the county, as lessee, to the San Joaquin County Public Facilities Financing Corporation, as lessor, for the use of county's administrative building as the leased asset. The county has agreed to budget and appropriate lease payments during the obligations' life. We note that these payments are subject to annual appropriation, as well as to abatement in the event of damage to or the destruction of the leased facilities. The COPs are rated one notch below the county's general creditworthiness to account for the risk of non-appropriation.

Credit overview

San Joaquin County is located in central California , at the north end of the San Joaquin Valley and within the Stockton metropolitan area. It has a growing economy, albeit with per capita incomes that are below the national average, largely supported by agricultural production and industrial warehouses. Assessed values have risen in recent years, supporting the county's core revenues. The county's financial position remains strong, as reflected by a recent history of operating surpluses and maintenance of very strong available reserves. While the county is projecting modest net deficits in the short term, we expect that it will maintain its reserve strength moving forward, as much of the additional spending will be from unspent American Rescue Plan Act (ARPA) funds. The county's debt burden is relatively modest; however, in our view, it must manage its long-term exposure to potentially rising pension and other postemployment benefit (OPEB) contributions. Despite this, we expect that the county will continue funding these obligations without any significant near-term impact to the general fund reserves.

The rating further reflects our view of the county's:

- Adequate economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Recent history of strong budgetary performance, with general fund and total government operating surpluses;

- Very strong available reserves that are unlikely to significantly weaken below current levels;
- Strong management, with a robust framework of financial policies and practices under our financial management assessment (FMA) methodology;
- Adequate debt and contingent liability position with low carrying charges and a large pension and OPEB obligation; and
- Strong institutional framework score.

Environmental, social, and governance

We view the county as having elevated physical risk related to drought and acute physical risks related to flooding, wildfire, and earthquakes that, if realized, could affect operating revenues or lead to unanticipated costs. However, we believe that state building codes have helped to manage seismic risk. In addition, the county's agriculturally based regional economy is exposed to chronic physical risks associated with drought conditions. We view the county's social and governance risk factors as neutral in our credit analysis.

Outlook

The outlook reflects our expectation that the county's budget will remain structurally balanced, supporting the maintenance of very strong reserves. In addition, we anticipate that the county will continue to monitor and adjust its budget to manage inflationary cost pressures and any other macroeconomic challenges in the near-term.

Downside scenario

Should the county's financial position weaken materially, leading to sustained deterioration in reserves, we could lower the rating.

Upside scenario

All else equal, should the county's economy continue to grow and improve, as reflected in measures of property wealth and resident incomes, we could raise the rating. In addition, we could raise the rating if the county's debt and liability profile improves, as evidenced by material progress toward addressing its pension obligation.

Credit Opinion

Growing Central Valley economy with incomes below the national average but an expanding industrial footprint

The county's economic base has historically served as a major agricultural producer, with the city of Stockton as its industrial and service hub. It is positioned to experience continued improvement in its underlying economy, including population growth and active development, continuing a trend of growth over the last decade. The county's tax base has seen consistent growth over the last several years, increasing by 9.5% in fiscal year 2023. Management anticipates that the county's growth will be spearheaded by agriculture, transportation, and a growing industrial sector that includes premier companies such as Amazon and Tesla. In addition, county officials anticipate that the transportation industry will become a larger portion of the county's overall economy, with several projects in place, including the Airpark 599 masterplan development, which will include space for e-commerce fulfillment, distribution, or advanced manufacturing.

Strong financial position, with plans to use one-time pandemic aid

The county has had a strong financial position and a history of positive operating results over the last several years. Its primary sources of revenue are intergovernmental aid and local taxes, including property and sales taxes that have been trending upward in recent years. Of note, sales tax revenue did not decline during the COVID-19 pandemic. The county's multi-year budget forecast is balanced through 2025, and management does not expect to materially reduce the county's very strong reserve position so long as core revenues keep pace with expected cost increases.

Consistent with other local government entities, the county is facing rising personnel costs following recent contract negotiations with its labor unions. However, it has sufficient available reserves to deploy in this area if core revenues slow or decline beyond current projections. The county is also exposed to rising fixed costs in the form of increased required pension contributions, given current funding levels. In the absence of sustained revenue growth, these expenditures could lead to moderation in future budget results. Of note, the county has over $70 million in ARPA funds that it expects to spend through fiscal 2026. We expect that the county will likely undergo future net operating deficits as it uses ARPA funds but will not materially draw down on general fund reserves. Given our expectation of the county's near-term budget balance, we also do not expect its very strong liquidity position to weaken.

Strong financial management with formal policies and practices in key areas that affect credit quality

Highlights of key financial management policies and practices include:

- Use of historical trend analysis as well as third-party analysis for sales tax trends and revenue forecasts;
- Quarterly budget meetings with board of supervisors;
- Formal, rolling five-year capital improvement plan with all funding identified;
- Formal, rolling five-year financial forecast for the general fund;
- Investment policy that is reviewed annually, with monthly reports sent to the board;
- Formal debt management policy that lacks quantitative restrictions but provides an outline for the types and forms of debt that may be issued; and
- Maintenance of a reserve policy, with a contingency reserve of at least 5% of the county's budget.

The institutional framework score for California counties with a federal single audit requirement is strong.

Low overall debt with no plans for future borrowing

The county has approximately $71.9 million in net direct debt, including the outstanding COPs. It does not have immediate plans to issue additional long-term debt, and we do not expect that the county's debt and contingent liability scores will worsen over the next two years.

Rising costs associated with the county's large pension liability

San Joaquin County participates in the following retirement plans:

- CalPERS miscellaneous plan: $10.2 million in net liability, or 67.9% funded;
- San Joaquin County's Employees' Retirement Association (SJCERA) plan: $1.6 billion in net liability, or 69.2%

funded; and

- OPEB plan: $81.5 million in net liability.

For more information on our view of California pensions, see our report "Pension Spotlight: California", published July 13, 2021, on RatingsDirect.

We view San Joaquin County's large pension and OPEB obligation as a credit weakness, with exposure to potentially rising costs given current plan funding. While we understand that the county lowered the discount rate on the SJCERA plan to 6.75% from 7.0% in 2022, the new rate remains above our 6% guideline. In addition, required contributions to the SJCERA plan increased 67% between 2017 and 2022. As of fiscal 2022, pension contributions comprised nearly one fifth of the county's total governmental funds expenditures. The county utilizes a PARS (Public Agency Retirement Services) trust account for pension costs that currently holds $52 million.

San Joaquin County, California--Key credit metrics				
	Most recent	**Historical information**		
		2022	**2021**	**2020**
Strong economy				
Projected per capita EBI % of U.S.	78.4		81.0	81.0
Market value per capita ($)	130,515	199,280	111,734	105,211
Population			774,232	765,673
County unemployment rate (%)		5.2	8.7	11.5
Market value ($000)	101,048,615	92,350,336	86,507,829	80,557,007
Ten largest taxpayers % of taxable value	4.2	4.2	4.0	3.9
Adequate budgetary performance				
Operating fund result % of expenditures		3.5	20.3	1.8
Total governmental fund result % of expenditures		9.1	17.5	9.3
Very strong budgetary flexibility				
Available reserves % of operating expenditures		31.1	42.3	24.9
Total available reserves ($000)		330,620	348,538	224,659
Very strong liquidity				
Total government cash % of governmental fund expenditures		122.9	125.0	109.8
Total government cash % of governmental fund debt service		20,930.1	19,094.9	15,509.6
Very strong management				
Financial Management Assessment	Strong			
Adequate debt & long-term liabilities				
Debt service % of governmental fund expenditures		0.6	0.7	0.7
Net direct debt % of governmental fund revenue	4.1			
Overall net debt % of market value	2.3			
Direct debt 10-year amortization (%)	89.0			
Required pension contribution % of governmental fund expenditures		20.6		
OPEB actual contribution % of governmental fund expenditures		0.3		

San Joaquin County, California--Key credit metrics (cont.)				
	Most recent	**Historical information**		
		2022	**2021**	**2020**
Strong institutional framework				
EBI--Effective buying income. OPEB--Other postemployment benefits.				

Data points and ratios may reflect analytical adjustments.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022