MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Contra Costa County's (CA) issuer rating to Aa1, LRBs' to Aa2 and POBs to Aa3; assigned Aa2 to 2021 LRBs; outlook is stable

16 Feb 2021

New York, February 16, 2021 -- Moody's Investors Service has upgraded Contra Costa County's (CA) issuer rating to Aa1 from Aa2, lease revenue bond rating to Aa2 from Aa3 and pension obligation bond rating to Aa3 from A1. The amount of debt affected is $232.4 million and $85.7 million, respectively. We also assigned a Aa2 rating to the Contra Costa County Public Financing Authority's $62.4 million Lease Revenue Bonds (Capital Projects and Refunding) 2021 Series A (Capital Projects) and $37.2 million 2021 Series B (Refunding). The outlook is stable.

RATINGS RATIONALE

The upgrade to Aa1 incorporates the county's strong and sustained financial position supported by robust reserves and liquidity. The Aa1 rating incorporates the county's large and diverse tax base poised for ongoing solid growth, residents' favorable income levels and moderate long-term liabilities. The rating also factors the recent increased general fund subsidy for the county's hospital enterprise because of higher operating costs unrelated to the pandemic. The subsidy will remain manageable when compared to the county's operating revenue. In addition, the county will benefit from a recently approved sales tax measure that expires in March 2041. These funds can be used to support general operations, providing additional financial flexibility. The county's strong governance, as demonstrated by management's prudent fiscal practices and adopted policies, is also factored into the rating.

The Aa2 ratings on the county's lease revenue bonds are one notch lower than the county's Aa1 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 the pledged asset, which is the Contra Costa Regional Medical Center.

The legal provisions for the Lease Revenue Bonds, 2021 Series A and 2021 Series B include that the city will provide rental interruption insurance for 24 months, title insurance, and will not require a debt service reserve fund, which is a negative credit factor. This negative credit factor is mitigated by the county having earthquake insurance that covers the pledged asset, a protective feature that is rare for California abatement leases. The county is not legally obligated to have earthquake insurance, however management expects to renew its policy when it expires next month.

The Aa3 rating on the county's pension obligations bonds is two notches lower than the county's issuer rating, reflecting the lack of strong legal features of California GO Bonds. The notching also reflects the relatively poor performance of POBs in Chapter 9 bankruptcies compared to other types of municipal obligations. The POBs are unsecured debt paid by general operating revenues.

RATING OUTLOOK

The stable outlook reflects our expectation that the county will maintain a strong financial position supported by management's prudent fiscal practices. In addition, we expect that the county will continue to navigate through the economic, operational and financial challenges caused by the coronavirus without materially impacting its long-term credit quality.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Improved income and wealth levels

- Material reduction in long-term liabilities and fixed costs

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Sizeable reduction in reserves and liquidity

- Material increase in long-term liabilities and fixed costs

LEGAL SECURITY

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

The lease revenue bonds are secured by 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 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.

USE OF PROCEEDS

2021 Series A bonds will finance improvements at the county's Buchanan Field Airport, the construction of two fire stations and a new county office building. 2021 Series B will refund outstanding lease revenue bonds for savings and there is no extension in maturity.

PROFILE

Contra Costa County is located in the eastern portion of the San Francisco Bay Area, just east of Berkeley and Oakland in northern California. The county seat of Martinez is approximately 24 miles northeast of downtown San Francisco. The county has a population of 1.1 million and the largest industry sectors that drive the local economy are health services, retail trade, and professional/scientific/technical services.

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. The principal methodology used in the lease and pension obligation bond ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in January 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1260202. 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.

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 https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1243406 .

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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