

RatingsDirect®

Summary:

Santa Barbara County, California; Appropriations; General Obligation

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US\$102.0 mil COPs ser 2024A-1 dtd 04/18/2024 due 12/01/2043		
<i>Long Term Rating</i>	AA+/Stable	New
US\$7.6 mil 2024 COPs Taxable ser 2024A-2 dtd 04/18/2024 due 12/01/2026		
<i>Long Term Rating</i>	AA+/Stable	New
ICR		
<i>Long Term Rating</i>	AAA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AAA' issuer credit rating (ICR) to Santa Barbara County, Calif.
- At the same time, S&P Global Ratings assigned its 'AA+' issue rating to Santa Barbara County's anticipated \$101.6 million series 2024A-1 (tax exempt) and \$7.575 million series 2024A-2 (taxable) certificates of participation (COPs).
- S&P Global Ratings also affirmed its 'AA+' rating on the county's COPs outstanding.
- The outlook is stable.

Security

The COPs represent an interest in base rental payments subject to annual appropriation from the county to the Santa Barbara County Finance Corporation for the use of various facilities. The county has covenanted to annually appropriate base rental payments from the general fund or any legally available funds. The leased assets pass our seismic risk assessment during the life of the COPs. In addition, rental interruption insurance is provided that covers two years of sublease payments to offset abatement risk. The rating on the lease revenue COPs is one notch below our view of the county's general creditworthiness, reflecting the appropriation risk associated with the COPs.

The COPs will finance a variety of capital improvements across the county, including a new probation headquarters and a main jail renovation.

Credit overview

Santa Barbara County has demonstrated strength and resilience across credit fundamentals, as evidenced by a consistent growth trajectory in its tax base, primary revenue sources, and available fund balance. The county benefits from its desirable location along California's central coast, between San Luis Obispo and Ventura counties, facilitating constant increases in assessed values, and drawing in significant tourism to its local beaches and wineries. The ratings are further supported by the county's robust financial management policies and practices, which, in our view, are prudent, forward-looking, and comprehensive.

The county has historically posted positive operating results with revenue growth consistently outpacing budgeted expenditures, except for a break-even result in fiscal 2022 due to the payment of a legal settlement. Available fund balance, consisting of unassigned and unrestricted committed reserves, has grown by a cumulative 19% between fiscal years 2022 and 2023, including \$40.6 million in its strategic reserve fund that is consistently maintained at 8% of operating revenues. The county's fiscal 2024 general fund budget totals \$558.3 million, an increase of 1.4% compared with prior year, with expenditure increases driven by labor, pension, and capital costs. We expect the county to post at least break-even results at fiscal year-end, largely attributed to lower-than-budgeted salary and benefit expenditures based on budget-to-actual estimates.

Furthermore, in our view, the county's debt profile remains affordable, with low overall net debt as a percent of market value and the county has no plans to issue new money debt over our outlook period of two years. The Santa Barbara County Employees' Retirement System administers the county's pension and other postemployment benefit (OPEB) plans. The county pension plan is currently 84% funded, assuming a 7% rate of return, and its OPEB plan is closed with a trust that is 45% funded. While we expect the county's pension contributions to grow over at least the medium term, we do not expect fixed costs to materially impact operating performance. We further expect the county to continue its long-standing trend of positive performance, economic growth, and maintenance of robust fund balances supported by strong fiscal management.

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

- Diversified local economy within the Santa Barbara MSA, featuring a durable and growing tax base, several strong anchor institutions including University of California, Santa Barbara, and Vandenberg Space Force Base, a robust agricultural industry, and continued strength in its real estate market;
- Trend of conservative budgeting that has yielded consistent positive performance and facilitated year-over-year growth in reserves, and a revenue profile that is largely supported by local taxes such as property and sales taxes;
- Well-embedded and comprehensive financial policies and practices, including long-term planning to support financial stability, and updated cyber risk mitigation measures. The county has a strong institutional framework score; and
- Affordable debt burden and with an adequately funded pension plan.

Environmental, social, and governance

We view environmental risk as somewhat elevated, given the region's exposure to various physical risks, including flooding, mudslides, wildfires, and seismic events. However, we think California's strong building codes serve to substantially mitigate risk of material tax-base effects associated with seismic activity. Furthermore, the county maintains an updated hazard mitigation plan and established six community wildfire protection plans across the county to manage and mitigate inland fire impacts. The county has appropriate resources and is knowledgeable in processing FEMA claims when necessary.

In our opinion, the continued implementation of Santa Barbara County's organizational framework, Renew, is a governance strength. The organizational model emphasizes financial resiliency and operational efficiency, including integrating feedback from customers to maximize quality service, as well as a focus on staff retention, innovation, and engagement. The framework embeds a culture of strategic planning and continuous improvement.

We view the county's social factors as neutral.

Outlook

The stable outlook reflects our view that the county will maintain its strong financial profile supported by a sizable and growing tax base and stable economy with continued tourism demand, and a strong risk and financial management culture.

Downside scenario

We could lower the rating if the county experiences financial pressure that results in a material reduction in general fund reserves.

Santa Barbara County, California--key credit metrics				
	Most recent	Historical information		
		2023	2022	2021
Very strong economy				
Projected per capita EBI % of U.S.	106			
Market value per capita (\$)	246,685			
Population			449,170	449,766
County unemployment rate(%)		3.9	3.5	5.8
Market value (\$000)	110,803,320	103,863,047	95,988,313	92,523,622
Ten largest taxpayers % of taxable value	2.7			
Strong budgetary performance				
Operating fund result % of expenditures		8.8	4.8	12.8
Total governmental fund result % of expenditures		5.4	5.1	10.1
Very strong budgetary flexibility				
Available reserves % of operating expenditures		19.2	19.0	18.0
Total available reserves (\$000)		88,127	84,685	77,215
Very strong liquidity				
Total government cash % of governmental fund expenditures		69	71	69
Total government cash % of governmental fund debt service		9828	10763	11988
Very strong management				
Financial Management Assessment	Strong			
Strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		0.7	0.7	0.6
Net direct debt % of governmental fund revenue	13			
Overall net debt % of market value	1.1			
Direct debt 10-year amortization (%)	46			
Required pension contribution % of governmental fund expenditures		12.3		
OPEB actual contribution % of governmental fund expenditures		0.7		

Santa Barbara County, California--key credit metrics (cont.)

	<u>Most recent</u>	<u>Historical information</u>		
		2023	2022	2021

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

Ratings Detail (As Of April 12, 2024)

Santa Barbara Cnty APPROP		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Santa Barbara Cnty APPROP		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

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