MOODY'S INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS MIG 1 RATINGS TO LOS ANGELES COUNTY'S, CA TAX AND REVENUE ANTICIPATION NOTES, SERIES A, SERIES B, AND SERIES C

Global Credit Research - 10 Jun 2011

APPROXIMATELY $1.5 BILLION IN DEBT AFFECTED

County
CA

Moody's Rating

ISSUE		RATING
2011-2012 Tax and Revenue Anticipation Notes, Series A		MIG 1
Sale Amount	$400,000,000	
Expected Sale Date	06/16/11	
Rating Description	Tax and Revenue Anticipation Notes	
2011-2012 Tax and Revenue Anticipation Notes, Series B		MIG 1
Sale Amount	$600,000,000	
Expected Sale Date	06/16/11	
Rating Description	Tax and Revenue Anticipation Notes	
2011-2012 Tax and Revenue Anticipation Notes, Series C		MIG 1
Sale Amount	$500,000,000	
Expected Sale Date	06/16/11	
Rating Description	Tax and Revenue Anticipation Notes	

Opinion

NEW YORK, Jun 10, 2011 -- Moody's Investors Service has assigned MIG 1 ratings to Los Angeles County's combined $1.5 billion issue of 2011-12 Tax and Revenue Anticipation Notes, Series A, Series B, Series C. The Notes are being issued to fund the County's cash flow needs and are secured by a pledge of unrestricted, fiscal 2012 general fund receipts. Series A, ($400 million) is expected to mature at the end of February,2012; Series B, ($600 million) at the end of March,2012; and Series C, ($500 million) at the end April, 2012.

RATING RATIONALE

The key credit strengths reflected in the rating include the early setting aside with a third party trustee of funds for Note repayment, the robust coverage levels during the months of the set-asides by receipts in those months, the manageable size of the Note relative to estimated 2012 receipts. Also key to the ratings is the relatively long history of conservative projections wherein actual year- end cash balances exceed projections and, critically, a significant amount of readily accessible alternate liquidity.

The key credit weakness is the negative position in which the County's general fund is projected to finds itself at the end of 2012. However, this weakness is mitigated by the abundance of the County's available liquidity outside of the cash flows, which is available to be drawn upon and not repaid until the following year. Also reflected in the rating are the County's still strong overall financial position, a proposed budget based on reasonable assumptions, and the Board's demonstrated willingness to make significant program cuts when necessary to maintain balanced operations.

The County still faces a number of notable long-term challenges, particularly in the health department, but these do not affect the credit quality of its Note issues for the upcoming fiscal year. The County's budget takes into account the State's Approved Budget and its May revisions whose combined effect on the County in fiscal 2012 is easily manageable. In 2011 the County was able to keep the net County cost of the state budget cuts to essentially zero as it maintained the practice of not backfilling any programs which were affected by state funding cuts. We believe that such budgetary discipline would be helpful in minimizing the erosion of the County's cash position, as the estimated cash drawdown in the current year and the projected drawdown in 2012 indicate depletion of general fund cash. In fact, the current rating relies heavily on the County's cash resources which are excluded from the cash flows but are available for short term borrowing.

COUNTY'S OVERALL LIQUIDITY IS SIGNIFICANTLY WEAKER ALTHOUGH SUFFICIENT FOR THE CURRENT RATINGS

After an extended period of cash surpluses in its general fund, the County's general fund cash position peaked in 2007 with an ending balance of $1.9 billion or 13.2% of receipts. Despite cash draw-downs in 2008, 2009, and 2010, year-end cash positions remained well above 5% of receipts through 2009 and stood at still strong 4.7% in 2010. And as a note of the inherent conservative nature of the County's projections, these ending balances were always significantly higher than the projected levels. In the current fiscal year the County's cash position appears to be headed for a precipitous drop, aggravated by loans from the general fund to the hospital system. The current projections, which reflect actual results through April 2011, show a cash decrease of $527 million for the year, driven in part by an elevated level of loans to the hospital system. This substantial cash support of the hospital system is necessitated by delays from the state of reimbursements to the hospitals. Despite this large blow to the County's general fund liquidity, the projected June 30, 2011 cash balance is estimated at $200 million or 1.2% of receipts, which is higher than the previously projected ending balance of negative $443 million or -3.0% of receipts. Also, the total cash decline of $527 million is $134 million less than the initially projected drawdown of $665 million, the starting cash position for 2011 was $504 million higher than previously projected, which led to the year ending estimate that is $643 million higher than projected.

The better than estimated result, even with the extraordinarily large loans to the hospital system, underscores the County's inherent conservatism in cash flow projections. The County has outperformed projections consistently in recent years. This conservatism may already be evident in the current fiscal 2011 cash flows which include actual results through April, with estimates for May and June. Actual result for May is significantly better than the estimated May balance shown on the current cash flow, and the year-end cash balance will probably exceed the estimated figure of $200 million by a substantial amount.

Overall, total receipts for fiscal 2012, are projected to be $696 million more in than in 2011, but this includes $221 million in net draws on alternate liquidity. Total disbursements are estimated to be $366 million higher, to combine for a net improvement of $330 million over 2011, or a cash decline of $195 million compared to $526 million in 2011. However, since most of the improvement in the net cash is due to intrafund borrowing, the projected cash decline in 2012 is only marginally better than the actual cash decline in 2011.

Significant assumptions in the 2012 cash flow include 1.0% increase in property tax receipts, which may be conservative, $269 million increase in welfare advances and $78 million increase in intergovernmental receipts which reflects 5.0% higher sales tax receipts of the state. On the expenditure side, welfare warrants are expected to increase by $214 million or 7.9%, and salaries and benefits are expected to increase by $143 million, or 2.0%. If these results are not achieved, the County asserts that it would make cuts in other areas. It is notable that while the County has eliminated nearly three thousand positions in recent years, there have been no actual lay-offs or furloughs.

While the County's general fund cash position has suffered in recent years, its overall financial health has remained generally strong on GAAP basis. The audited 2010 general fund balance stood at $3.0 billion or 21.6% of revenues. Despite the significant decline in cash, the 2012 general fund balance is estimated at $2.5 billion or closer to 17.5% of revenues.

AMPLE COURT-VALIDATED ALTERNATE LIQUIDITY

As the current projections stand, the County estimates a substantial, but decreasing cash deficit at fiscal year- end 2012 without draws on its alternate liquidity. The projected ending balance of just $5 million is after a borrowing of $221 million from sources outside the general fund. Without this draw, the ending balance would be a negative 1.2% of receipts. Although this negative cash position is highly unusual, between 1991 and 1998 and the County repeated relied on its alternate liquidity for cash support. The funds identified by the County for such support were challenged in court and the County prevailed. The estimated alternate liquidity balance for June 2012 is $1.39 billion, which would exceed the deficit by a margin of $1.17 billion and equal 7.2% of projected 2012 receipts.

The County estimates that a substantial portion of the identified alternate liquidity is comprised of funds that are held in trusts prior to transfer to the general fund. For example, for the 2011-12 year end, the estimated amount of these general fund bound funds is greater than $450 million, which would more than offset the estimated deficit of $216 million. In fact the County estimates that if such general fund bound funds were included in the cash flows, the projections would show no monthly deficits.

EARLY SET-ASIDE WITH A TRUSTEE AND STRONG COVERAGE DURING SET-ASIDE MONTHS

The County's Note issues are manageable at 9.3% of projected fiscal 2012 receipts. While the end-of year balances are important to assess the County's overall cash position for the year, also important for our analysis is the cash performance in months when the funds for Note repayment are set aside. The 2012 cash flows indicate the following schedule for setting aside funds for Note repayment: December, 2011, $549 million; January, 2012, $450 million; February, 2012, $150 million; March, 2012, $75 million and April, 2012, $300 million. The weighted average for these set asides is a very early 4.6 months prior to the end of the fiscal year. However, the notes will be issued as three separate series with maturates on February 29, March 30, and June 29, 2012. For the February maturity the funds will be with the trustee by December, 2011. For the March maturity, the funds will be with the trustee by February, 2012. Funds for the final, June Maturity, the funds will be with the trustee by April, 2012. Therefore, the Trustee is expected to have the funds in full no less than nearly two months prior to maturity of the notes. Also importantly as the TRANs have first claim on unrestricted revenues of the County, coverage ratios with general fund receipt in these months ranges from 5.0x in December to 12.3x in March.

KEY STATISTICS

Projected Amount Borrowed as % of Receipts, FY 2012: 9.3%

Actual Ending Cash as% of Receipts, FY 2010: 4.7%

Projected Ending Cash as% of Receipts, FY 2011: 1.2%

Projected Ending Cash as% of Receipts, without alternate liquidity, FY 2012: -1.2% (excluding projected interfund borrowing of $221 million)

Alternate Liquidity Projected at 6/30/11 : $1.39 billion

Alternate Liquidity % of FY 2012 receipts: 7.2%

Pledged Set-Aside timing (months before June): 4.6 months

The principal methodology used in this rating was Short-Term Cash Flow Notes published in May 2007.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, parties not involved in the ratings and public information.

Moody's Investors Service considers the quality of information available on the credit satisfactory for the purposes of assigning a credit rating.

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