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Summary:
Los Angeles County, California; Note

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Credit Profile		
US$600. mil 2011-12 TRANs ser B dtd 07/01/2011 due 03/31/2012		
Short Term Rating	SP-1+	New
US$500. mil 2011-12 TRANs ser C dtd 07/01/2011 due 06/29/2012		
Short Term Rating	SP-1+	New
US$400. mil 2011-12 TRANs ser A dtd 07/01/2011 due 02/29/2012		
Short Term Rating	SP-1+	New

Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to Los Angeles County, Calif.'s 2011-2012 series A ($400 million), series B ($600 million), and series C ($500 million) tax revenue anticipation notes (TRANs).

The rating reflects what we view as the county's:

- Very diverse economy and good long-term creditworthiness (issuer credit rating: AA-/Positive);
- Note structure that includes early set-asides of TRAN repayment amounts;
- Good projected TRANs debt service coverage of at least 1.5x at each of the maturity dates by total net available ending cash fund balances, including general fund and intrafund borrowable cash attributable to the general fund; and
- Recent history of generally conservative cash flow projections, including better-than-projected estimated cash coverage on the series 2010-2011 TRANs maturing June 30, 2011.

According to the resolution, on and after the set-aside dates, the county auditor-controller will deposit into the note repayment fund unrestricted taxes, income, revenue, cash receipts, and other money of the county attributable to fiscal 2012, and lawfully available for payment. The repayment fund will be held by U.S. Bank National Association as Trustee according to the Trust Agreement.

The series 2011-12A TRANs are secured by $525 million (plus interest to accrue on all series), $450 million, and $150 million of the first unrestricted revenues of the county attributable to fiscal 2012 to be received on and after Dec. 20, 2011, Jan. 2, 2012, and Feb. 1 2012. The series A notes mature Feb. 29, 2012.

The series 2011-12B TRANs are secured by the revenues above as well as the first $75 million of unrestricted revenues to be received on and after March 1, 2012, attributable to fiscal 2012. The series B notes mature March 30, 2012.

The series 2011-12C TRANs are secured by the revenues above as well as the first $300 million of unrestricted revenues to be received on and after April 1, 2012, attributable to fiscal 2012. The series C notes mature June 29, 2012.

The county projects $1.15 billion of general fund cash available for note repayment at Feb. 29, 2012, including general fund money set-aside in the repayment fund, would provide what we consider a strong 2.85x coverage of the series A notes at maturity. The county projects $824 million of general fund cash available at March 30, 2012, to cover the series B note principal and interest at maturity by what we consider a good 1.35x. Projected general fund cash available of $515 million at June 29, 2012, covers the series C notes at maturity by what we view as a weak, but adequate 1.01x. Including Los Angeles County's projected general fund cash and cash attributable to the general fund but held in non-general-fund trust funds, note coverage is what we view as good at 4.1x, 1.5x, and 1.5x at each maturity date for the series A, B, and C notes, respectively.

In addition to general fund cash that the county projects at fiscal year-end 2012, it has access to other significant internal cash sources if general fund revenues do not meet projections. These additional sources include a variety of other available county funds including unapportioned property taxes and a departmental trust fund held outside the general fund. Los Angeles County represents it regularly transfers money from these funds to the general fund for operations through the year and that about 30%-35% of the identified intrafund borrowable resources is general fund revenue that is received at regular intervals through non-general-fund trust funds but that is attributed to the general fund. County officials indicate transfers of these funds do not require board action. The county projects intrafund sources, before transfers, will average $1.9 billion, $2.0 billion, and $1.4 billion at the end of February, March and June, respectively. Although these intrafund borrowable sources are not part of the general fund, they are legally available for TRANs repayment. Including a portion of these resources attributable to the general fund, net of assumed transfers to the general fund, note coverage is what we view as good at 4.1x, 1.5x, and 1.5x at each maturity date for the series A, B, and C notes, respectively. Projected cash balances including all intrafund borrowable resources provide what we believe to be very strong 7x, 3.4x, and 3.3x coverage at each maturity date for the series A, B, and C notes, respectively.

The county's general fund cash projections have generally been what we consider conservative in recent years when compared to actual cash balances. Based on actual cash flows through April 2011, Los Angeles County estimates it will end fiscal 2011 with general fund cash of at least $200 million, which would provide 1.13x coverage of the county's fiscal 2011 TRANs outstanding, which is better than the 1.00x coverage that the county originally projected at the time the 2010-2011 TRANs were sold. Furthermore, county officials estimate coverage at maturity could be even higher at about 1.24x based on actual cash flows through May 2011, which reflect an additional $163 million of cash above projections. The county attributes the 13% positive variance primarily to better property tax collections and higher-than-projected transfers into the general fund for county mental health programs.

Los Angeles County's cash flow projection is based on its fiscal 2012 recommended budget, but does not includes adjustments to receipts and disbursements resulting from the governor's proposed May revision to the state budget. Although the county estimates $366 million of funding cuts from the state to the overall county budget (primarily to the county's health and social services programs) in fiscal 2012, officials represent they would make corresponding program cuts that would result in an increase of an estimated $52 million in cash to the general fund from administrative cost savings. Los Angeles County has not assumed these cost savings in its cash flows. The state's budget included a proposal to realign responsibilities and costs of certain local and state programs with accompanying funding from the extension of certain state taxes. The tax extensions require both legislative and voter approval of which the state has received neither to date. The county's cash flows also assume an extension of the vehicle license fees (VLF); without a state extension of the VLF, officials estimate VLF revenue to the county could decline by $130 million.

Officials indicate total county sales taxes are up year-to-date and estimate a 4% increase in fiscal 2011 compared with the previous year. The county's fiscal 2012 cash flows reflect a 5% increase in both Proposition 172 and Realignment sales tax collections and a 1% increase in property tax receipts based on the county assessor's current projected 0.99% increase in the county's net assessed value next year. The fiscal 2012 cash flows also project a 3% increase in salaries based on step advances only and assumes a net $60 million of hospital general fund loans pending state reimbursement will be repaid--the county estimates the state and federal governments owe about $1 billion in total for various cost reimbursements related to the hospital.

We understand the county intends to invest TRAN proceeds and repayment amounts in its investment pool. As of April 30, 2011, the pool had a book value of about $27 billion; the pool is highly liquid, with 41% of its investments maturing within 60 days and with an average weighted maturity of 538 days. As of April 30, investments consisted of U.S. government agency obligations (49%), commercial paper (34%), certificates of deposit (15%), and corporate notes (3%). Only 9.5% of the county treasury pool participants are discretionary depositors.

In Standard & Poor's view, Los Angeles County's long-term credit quality is characterized by a very broad and diverse economic base, as well as good financial reserves of $2.2 billion in fiscal 2010, down from $2.8 billion in fiscal 2008, but what we consider a still very strong 16.7% of expenditures. Officials estimate about a $500 million decline in the total general fund balance in fiscal 2011. The recommended fiscal 2012 budget proposes to meet a $221 million budget gap primarily with reserves, departmental savings, elimination of vacant budgeted positions, additional property tax and sales tax revenue, and lower debt service costs; county officials estimate a recent final debt service payment on the county's pension obligation bonds reduced annual expenditures by $372 million. The county's budget has been pressured by higher health and social program caseloads and costs and state funding reductions as well as what we see as a large $23 billion other postretirement employee benefits unfunded actuarial accrued liability (UAAL) as of the most recent actuarial valuation of July 1, 2010. Officials expect to transfer $470 million into a trust fund for the OPEB liability in fiscal 2012 and are evaluating options to reduce the future UAAL.

Related Criteria And Research

USPF Criteria: Short-Term Debt, June 15, 2007

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