New Issue: Moody's assigns a MIG 1 to LA County's (CA) TRANs

Global Credit Research - 29 May 2015

Rating Applies to $900M

LOS ANGELES (COUNTY OF) CA
Counties
CA

Moody's Rating

ISSUE	RATING
2015-16 Tax and Revenue Anticipation Notes	MIG 1

Sale Amount	$900,000,000
Expected Sale Date	06/05/15
Rating Description	Note: Tax and/or Revenue Anticipation

Moody's Outlook STA

NEW YORK, May 29, 2015 --Moody's Investors Service has assigned a MIG 1 rating the Los Angeles County's $900 million 2015-2016 Tax and Revenue Anticipation Notes (TRANs).

SUMMARY RATING RATIONALE

The MIG 1 rating incorporates the county's Aa2 Issuer rating of the county, the modest amount of short-term borrowing relative to the county's projected cash receipts, the early set aside of cash well in advance of the maturity of the notes, and the county's history of conservative budgeting. The rating also factors in the county's narrow general fund cash balances, although it has a significant amount of liquidity against which the county could borrow for short periods of time.

OUTLOOK

Outlooks are not assigned to short-term ratings.

WHAT COULD MAKE THE RATING GO UP

- Not Applicable

WHAT COULD MAKE THE RATING GO DOWN

- Significant lowering of the outstanding long term rating

- Higher than anticipated reduction of cash position

STRENGTHS

- Highly rated county

- Moderate amount of note borrowing relative to receipts

- Actual cash flow results have been consistently better than projections

- Ample alternate liquidity

CHALLENGES

- Significant revenue dependence on the state

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

LONG TERM CREDIT QUALITY

The county's Aa2 Issuer rating reflects the county's emergence from the economic downturn with key credit factors intact. The county's assessed value (AV) stands at an all-time high following a relatively small declines in 2010 and 2011. The labor market is recovering, though the unemployment rate remains higher than state and US levels. Financial operations are well managed and reserve levels are generally in line with similarly rated counties. The debt position remains strong. Low direct debt and lease burden remain key positive credit factors. The county's unfunded pension and Other Post Retirement Benefits (OPEB) liability represent long term risks for the county's rating but are currently manageable.

CASH FLOW

The county is projecting its fiscal year 2016 ending cash position to be $361 million, which represents a very narrow 1.9% of projected receipts. Positively, the county is consistently conservative in its projections. Actual results for the prior ten years show the county similarly outperforming original projections.

For the current fiscal year (2015), the county's estimate for its cash level to exceed its original cash projection by $362 million. The primary drivers behind this positive variance includes property taxes and welfare advances exceeding projections. As a result, year-ending cash should be approximately $777 million, which is 4.2% of total revenue (net of TRAN repayment). The county has substantial alternate liquidity to offset its narrow general fund cash levels, however. While these funds are not pledged to note holders, they nonetheless provide a measure of credit support. The county has projected a total of $1.41 billion of alternate liquidity available at fiscal year-end 2015. Together with the pledged revenue, this amount represents a solid 11% of total FY 2015 receipts.

DEBT POSITION AND LEGAL COVENANTS

The county is an annual issuer of short-term tax and revenue anticipation notes, as this borrowing provides relief against the volatility of its cash flow receipts. The county's revenues peak in December-January and April-May, reflecting the semi-annual property tax receipts, while monthly expenditures remain fairly constant throughout the year. This year's TRAN borrowing is low, representing 5% of projected fiscal 2016 receipts. This year's TRAN issuance is level to the prior year and due to the county's continued improving financial position, management reports that future issuances may be consistent to levels prior to fiscal 2010 ($500 million).

The TRANS will be dated as of July 1, 2015 and mature on June 30, 2016.

The county's dollar-weighted-average set-aside is a sound 5.1 months before the fiscal year-end. The county pledges to set aside 70% of the TRAN's principal in January and all of the TRAN's debt service in April.

MANAGEMENT

The county's management has a long standing practice of utilizing conservative budgeting assumptions and has consistently outperformed original cash flow projections for over a decade.

KEY STATISTICS

- Long-term Issuer Rating: Aa2/stable

- 2015 Cash balance as a % of total receipts: 4% and 11.5% (including borrowable resources)

- Timing of Receipts: Sufficient cash is available more than 30 days prior to maturity

- Amount Borrowed as a % of Receipts: 4.7%

- Segregation of Funds: Weighted-average set-aside is a sound 5.1 months

OBLIGOR PROFILE

Los Angeles County serves a population of over 10 million and has a highly diversified economic base. The county's improving wealth levels continue to approximate nationwide medians. Estimated 2012 Median Family Income is 97.0% of the US, while in 2000 it stood at 92.8%.

LEGAL SECURITY

The notes are secured by a pledge of unrestricted, fiscal 2016 general fund receipts.

USE OF PROCEEDS

The Notes are issued to fund the County's cash flow needs.

RATING METHODOLOGY

The principal methodology used in this rating was Short-Term Cash Flow Notes published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt 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 rating action on the support provider and in relation to each particular 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.

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