

CREDIT OPINION

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New Issue

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Los Angeles County, CA

New Issue: Moody's Assigns MIG 1 to Los Angeles County CA's 2016-2017 TRANs

Summary Rating Rationale

Moody's Investors Service has assigned a MIG 1 rating to the Los Angeles County's \$800 million 2016-2017 Tax and Revenue Anticipation Notes (TRANs). The MIG 1 rating reflects the county's strong long-term credit quality, strong management team, as measured by the accuracy of past projections and reasonable future cash flow assumptions and ample alternate funds available for note repayment. The rating further incorporates the predictability of revenues and timing of receipts for repayment, with note holder protections that include the segregation of repayment funds into a dedicated fund held by the county.

Credit Strengths

- » Highly rated county
- » Low amount of note borrowing relative to receipts
- » Actual cash flow results have been consistently better than projections
- » Ample alternate liquidity

Credit Challenges

- » Significant revenue dependence on the state

Rating Outlook

Outlooks are usually not assigned to short-term ratings.

Factors that Could Lead to an Upgrade

- » Not applicable

Factors that Could Lead to a Downgrade

- » Significant lowering of the outstanding long term rating
- » Significant reduction in anticipated cash position
- » Erosion of alternate sources of liquidity

Key Indicators

Exhibit 1

Los Angeles (County of) CA	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 997,502,482	\$ 1,013,260,968	\$ 1,035,518,346	\$ 1,085,743,686	\$ 1,207,856,231
Full Value Per Capita	\$ 101,187	\$ 102,226	\$ 103,355	\$ 107,830	\$ 119,389
Median Family Income (% of US Median)	97.8%	97.0%	97.0%	97.0%	97.0%
Finances					
Operating Revenue (\$000)	\$ 13,620,804	\$ 13,844,896	\$ 14,610,458	\$ 15,210,524	\$ 15,456,469
Fund Balance as a % of Revenues	17.8%	16.8%	17.6%	18.3%	18.5%
Cash Balance as a % of Revenues	15.9%	14.6%	11.2%	12.7%	17.4%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 1,925,939	\$ 1,822,805	\$ 1,879,522	\$ 1,585,747	\$ 1,668,075
Net Direct Debt / Operating Revenues (x)	0.1x	0.1x	0.1x	0.1x	0.1x
Net Direct Debt / Full Value (%)	0.2%	0.2%	0.2%	0.1%	0.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.2x	1.6x	1.8x	2.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.6%	2.3%	2.5%	2.6%

Source: Moody's Investors Service

Detailed Rating Consideration

Long Term Credit Quality: Strong 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 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 supported by healthy reserve levels. The rating also incorporates the county's unfunded pension and OPEB liabilities representing long-term, but manageable, risks for the county.

Cash Flow: Healthy Cash Position Based On Conservative Assumptions

For the current fiscal year (2016), the county estimates its cash level will exceed the original cash projection by \$866 million. The primary drivers behind this positive variance includes property taxes exceeding projections and vendor payments coming in below estimates, primarily due to the receipt of one-time grant funds. As a result, year-ending cash should be approximately \$1.2 billion, which is 6.4% of total revenue (net of TRAN repayment). We expect to see ending cash from pledged funds at least 5% of total receipts for the MIG 1 rating level which the county's cash balance exceeds.

The receipt of revenue is highly reliable and does not depend on voter approval. Pledged receipts largely consist of property taxes, which have scheduled and timely collection dates and very low delinquency rates less than 1.5%.

LIQUIDITY

The county is projecting its fiscal year 2017 ending cash position to be \$613 million, which represents a low 3% of projected receipts. However, the county is likely to produce actual results much stronger than projections. The county is consistently conservative in its projections and salary increases for employees have been settled for fiscal 2015 through fiscal 2017, which adds a level of certainty for the largest expenditure item for county. Actual results for the prior ten years show the county similarly outperforming original projections.

Adding additional credit strength is the county's alternate, but not legally pledged, funds available for TRAN repayment. Management expects to have approximately \$1.4 billion of available funds held outside the general fund for note repayment should the county need access to additional cash at maturity. We incorporate an alternate liquidity amount of \$1.3 billion into our analysis, adjusting for solely the county's tax revenues held in the tax collector trust fund. While we do not anticipate these available funds to be needed for note

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repayment, the availability of these funds adds strength to the TRAN rating. The county's fiscal 2017 projected total available liquidity, including adjusted alternate sources, will be approximately 9.4% of total revenues

Debt Position and Legal Covenants: Strong Set Aside Plan for Note Repayment

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 3.9% of projected fiscal 2017 receipts and is lower than the prior year (\$900 million) due to the county's continued improving financial position.

The county's dollar-weighted-average set-aside is a sound 4.1 months before the fiscal year-end. The county pledges to set aside 79% of the TRAN's principal by January and all of the TRAN's debt service in April.

DEBT STRUCTURE

The notes will be issued in July 2016 and will mature on June 30, 2017.

DEBT-RELATED DERIVATIVES

The county has no debt-related derivatives.

PENSIONS AND OPEB

The county's three-year adjusted net pension liability (ANPL) is moderate at 2.7% of AV and 2.0 times operating revenues, which equate to an A-rating score on our scorecard. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported liability information, but to improve comparability with other rated entities.

The county's OPEB liability is a sizeable \$27.29 billion. In an effort to stem the looming burden of its OPEB liability, the county established an irrevocable OPEB trust in 2012. As of March 31, 2016, the trust had a net position of \$539.6 million. The Board of Supervisors recently adopted a funding plan commencing in fiscal 2016 that would enable the county to fully fund its annual contribution (\$2.2 billion) by fiscal 2032. Further, the county has eliminated spousal and dependent coverage and implemented mandatory enrollment in Medicare. This is expected to save more than \$840 million in savings over the next 30 years.

Management: Strong Management Team

California counties have an institutional framework score of "A," or moderate. Revenues consist primarily of state aid, property taxes and sales taxes, which are moderately predictable overall. Property taxes are very predictable, given the state's constitutional formula, known as Proposition 13, while state aid and sales taxes are economically sensitive. Counties' ability to raise revenues is moderate and almost always requires voter approval. Most county expenditures are highly predictable state and federal mandates. If the state fails to fund a mandated service, the county is not legally obligated to provide that service, resulting in moderate expenditure reduction ability.

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.

Legal Security

The notes are secured by a pledge of unrestricted fiscal 2017 general fund receipts.

Use of Proceeds

The notes are being issued to fund the county's 2017 fiscal year cash flow needs.

Obligor Profile

Los Angeles County is largest county in the nation both by size (\$1.26 trillion tax base) and population (10.1 million). The county's economy continues to improve, and the unemployment rate is 4.7% (April 2016) which approximates the national rate (4.7%) and is below the state's 5.3% unemployment rate.

Methodology

The principal methodology used in this rating was Short-Term Cash Flow Notes published in April 2013. Please see the Ratings Methodologies page on www.moody's.com for a copy of this methodology.

Ratings

Exhibit 2

Los Angeles (County of) CA

Issue	Rating
2016-17 Tax and Revenue Anticipation Notes	MIG 1
Rating Type	Underlying ST
Sale Amount	\$800,000,000
Expected Sale Date	06/08/2016
Rating Description	Note: Tax and/or Revenue Anticipation

Source: Moody's Investors Service

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