

CREDIT OPINION

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Los Angeles County, CA

Update to Credit Analysis on Assigning MIG 1 to Los Angeles County's TRANS

Summary

Los Angeles County (Aa1 stable) has strong long term credit quality, a 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. There is high predictability of revenues and timing of receipts for repayment of the notes and strong noteholder legal protections that include the segregation of repayment funds into a dedicated fund held by the county.

Credit strengths

- » Highly rated county
- » Low amount of Tax and Revenue Anticipation Notes (TRANS) 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 reduction in anticipated cash position
- » Erosion of alternate sources of liquidity
- » Significant lowering of the outstanding long term rating

Key indicators

Exhibit 1

Los Angeles County, CA	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$1,093,824,574	\$1,145,207,970	\$1,207,822,625	\$1,282,484,495	\$1,354,448,027
Population	10,019,000	10,069,000	10,192,000	10,240,000	10,300,000
Full Value Per Capita	\$109,175	\$113,736	\$118,507	\$125,243	\$131,500
Median Family Income (% of USMedian)	96.2%	95.2%	95.0%	95.5%	95.5%
Finances					
Operating Revenue (\$000)	\$14,611,055	\$15,466,917	\$15,904,599	\$16,723,902	\$17,117,732
Fund Balance (\$000)	\$2,656,782	\$2,872,559	\$2,948,546	\$3,060,999	\$3,398,212
Cash Balance (\$000)	\$1,734,152	\$2,020,888	\$2,770,039	\$3,255,581	\$4,208,725
Fund Balance as a % of Revenues	18.2%	18.6%	18.5%	18.3%	19.9%
Cash Balance as a % of Revenues	11.9%	13.1%	17.4%	19.5%	24.6%
Debt/Pensions					
Net Direct Debt (\$000)	\$1,879,522	\$1,585,747	\$1,668,075	\$1,875,593	\$1,802,056
3-Year Average of Moody's ANPL (\$000)	\$23,478,641	\$25,351,862	\$27,658,863	\$25,984,797	\$30,354,366
Net Direct Debt / Full Value (%)	0.2%	0.1%	0.1%	0.1%	0.1%
Net Direct Debt / Operating Revenues (x)	0.1x	0.1x	0.1x	0.1x	0.1x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.1%	2.2%	2.3%	2.0%	2.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.6x	1.6x	1.7x	1.6x	1.8x

Source: Los Angeles County and Moody's Investors Service

Profile

Los Angeles County is the largest county in the nation both by size (\$1.4 trillion tax base) and population (10.3 million). The county has a large and diverse economy and the unemployment rate is low at 4.1% (March 2018).

Detailed credit considerations

Long Term Credit Quality: Strong Long- Term Credit Fundamentals

The county benefits from an exceptionally large assessed value that stands at an all-time high at \$1.4 trillion in fiscal 2018 and is projected to increase to \$1.5 trillion in fiscal 2019 as well as a large and diverse economy. Financial operations are well managed and supported by healthy reserve levels that we expect to remain stable and the county's debt burden remains modest. Los Angeles County has moderate pension and OPEB burdens, however county management has taken progressive actions to increase funding for these long-term liabilities.

Cash Flow: Healthy Cash Position Based On Conservative Assumptions

For the county estimates that its cash level will exceed its original cash projection by \$1.2 billion. The primary driver behind this positive variance is due to strong expenditure controls and historically conservative cash flow projections. The fiscal 2018 year-ending cash balance is projected at approximately \$1.8 billion, which is 8.4% of total revenue (net of TRANs repayment). According to our methodology, we expect to see ending cash from pledged funds be 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 1.1%.

LIQUIDITY

The county is projecting its fiscal year 2019 ending cash position to be \$707.2 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

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its projections and actual results for the past ten years show the county similarly outperforming original projections. In addition, the county actively manages its liquidity position which includes providing daily auditor-controller cash reports, monthly reports to the board of supervisors, and continuous monitoring and updating of monthly cash flow estimates.

Adding additional credit strength is the county's alternate, but not legally pledged, funds available for the TRANs 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 repayment, the availability of these funds adds strength to the TRANs rating. The county's fiscal 2019 projected total available liquidity, including adjusted alternate sources, will be approximately 9.5% of total revenues.

Debt Position and Legal Covenants: Strong set aside plan for note repayment

The county is an annual issuer of TRANs, 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 TRANs borrowing at \$700.0 million is lower than last year's borrowing at \$800.0 million and represents a low 3.4% of projected fiscal 2019 receipts.

DEBT STRUCTURE

The Tax and Revenue Anticipation Notes will be dated as of July 2, 2018 and mature on June 28, 2019.

The county pledges to set aside 90% of the principal for the TRANs in January and all of the debt service in April.

DEBT-RELATED DERIVATIVES

The county has no debt-related derivatives.

Management and Governance: Strong management that utilizes prudent fiscal practices

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.

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