Rating Action: Moody's Assigns MIG 1 Rating to Los Angeles County's, CA 2012-13 TRANs

Global Credit Research - 05 Jun 2012

$1.1 Billion in Short Term Debt Affected

New York, June 05, 2012 --

Moody's Rating

Issue: 2012-13 Tax and Revenue Anticipation Notes, Series A; Rating: MIG 1; Sale Amount: $300,000,000; Expected Sale Date: 6/15/2012; Rating Description: Note: Tax and/or Revenue Anticipation

Issue: 2012-13 Tax and Revenue Anticipation Notes, Series B; Rating: MIG 1; Sale Amount: $400,000,000; Expected Sale Date: 6/15/2012; Rating Description: Note: Tax and/or Revenue Anticipation

Issue: 2012-13 Tax and Revenue Anticipation Notes, Series C; Rating: MIG 1; Sale Amount: $400,000,000; Expected Sale Date: 6/15/2012; Rating Description: Note: Tax and/or Revenue Anticipation

Opinion

Moody's Investors Service has assigned MIG 1 ratings to Los Angeles County's combined $1.1 billion issue of 2012-13 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 2013 general fund receipts. Series A, ($300 million) is expected to mature at the end of February, 2013; Series B, ($400 million) at the end of March, 2013; and Series C, ($400 million) at the end June, 2013.

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 2013 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 exceedingly narrow general cash position in which the County's general fund is projected to ends itself at the end of 2013. 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 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 Proposed Budget and its May revisions whose combined effect on the County in fiscal 2013 is easily manageable. In 2012 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 2013 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.

Key Credit Strengths

- Moderate amount of note borrowing
- Annual note issuer
- In last ten years actual cash flow results have been better than projections
- Conservative projections with reasonable assumptions
- Abundant alternate liquidity

Key Credit Challenge

- Significant revenue dependence on the state
- General Fund Cash balance for 2013 is projected to be 0.3% of receipts

What Could Help The Rating Go UP

NA

What Could Help The Rating Go DOWN

Significantly higher than anticipated reduction of cash position

Significant lowering of the outstanding long term rating

The principal methodology used in this rating was Short-Term Cash Flow Notes published in May 2007. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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